

WALLER LANSDEN DORTCH & DAVIS

A PROFESSIONAL LIMITED LIABILITY COMPANY

NASHVILLE CITY CENTER

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NASHVILLE, TENNESSEE 37219-8966

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D Billye Sanders

(615) 252-2451

bsanders@wallerlaw.com

100 JAN 14 PM 2 47
809 SOUTH MAIN STREET
P. O. BOX 1035
COLUMBIA, TN 38402-1035
(931) 388-6031

January 14, 2000

Via Hand-Delivery

K. David Waddell
Executive Secretary
Tennessee Regulatory Authority
460 James Robertson Parkway
Nashville, Tennessee 37219

00-00025



Re: Application of SBC Telecom, Inc. for a Certificate of Public Convenience and Necessity to Provide Facilities-Based and Resold Competing Local Exchange and Interexchange Telecommunications Services within the State of Tennessee

Dear Mr. Waddell:

Enclosed you will find the original and thirteen (13) copies of the Application of SBC Telecom, Inc. for a Certificate of Public Convenience and Necessity to Provide Facilities-Based and Resold Competing Local Exchange and Interexchange Telecommunications Services within the State of Tennessee and a check for \$25 for the filing fee.

Please contact me if you need additional information.

Sincerely,

D. Billye Sanders

D. Billye Sanders

DBS:lmb
w/Enclosures

cc: Thomas W. Hartmann, Esq.
William A. Adams, Esq.
Thomas W. Troll
Mark Ortlieb, Esq.

FILE

Paid 25.00
OK#
018075
DW

Walk in

**BEFORE THE TENNESSEE REGULATORY AUTHORITY
NASHVILLE, TENNESSEE**

IN RE: APPLICATION)
OF SBC TELECOM, INC. FOR)
A CERTIFICATE OF PUBLIC)
CONVENIENCE AND NECESSITY)
TO PROVIDE FACILITIES-BASED)
AND RESOLD COMPETING LOCAL)
EXCHANGE AND INTEREXCHANGE)
TELECOMMUNICATIONS SERVICES)
WITHIN THE STATE OF TENNESSEE)

DOCKET NO.

00-00025

REC'D TO
REGULATORY AUTH.
'00 JAN 14 PM 2 47
EXECUTIVE SECRETARY

APPLICATION

SBC Telecom, Inc. ("SBC Telecom"), a wholly-owned subsidiary of SBC Communications Inc. ("SBC"), hereby submits its Application to the Tennessee Regulatory Authority ("TRA") pursuant to T.C.A. § 65-4-201 and Rule 1220-4-8-.02 of the Rules of the TRA and Section 253 of the Federal Telecommunications Act of 1996, for an Order granting SBC Telecom a Certificate of Public Convenience and Necessity ("Certificate") to provide facilities-based and resold competitive local and interexchange telecommunications services throughout the State of Tennessee. SBC Telecom initially intends to serve the Nashville and Memphis Metropolitan Statistical Areas, but seeks state-wide authority at this time so that it subsequently may expand its local exchange service area without amending the scope of its certification. Granting SBC Telecom the Certificate and other relief requested herein will promote competition in the Tennessee telecommunications industry and is in the public interest. In support of this Application, SBC Telecom submits the following information:

I. Introduction - National-Local Strategy

When SBC announced its proposed merger with Ameritech Corporation ("Ameritech"), SBC pledged to compete as a local exchange service provider in out of region markets because the merged company would have the scale and scope necessary to allow it to compete effectively. On October 8, 1999, SBC completed its merger with Ameritech, subject to conditions the Federal Communications Commission ("FCC") imposed in CC Docket No. 98-

141. One of those conditions is that SBC compete out of its traditional local exchange area by offering facilities-based local service in 30 out of region markets.¹

SBC's effort to become a nationwide provider of competitive local exchange service is known as the National-Local Strategy. As part of its National-Local Strategy, SBC Telecom is filing this Application as a non-dominant carrier seeking a Certificate to provide competitive local exchange and interexchange service in the State of Tennessee. This Application is one of several which SBC Telecom either has filed or will file across the nation to execute the National-Local Strategy. The implementation of the strategy will provide significant benefits to the State of Tennessee, its economy and its telecommunications industry, as well as to business and residential customers.

II. Description of Applicant and Corporate Authority

The legal name, principal business address and the phone number of SBC Telecom are as follows:

SBC Telecom, Inc.
175 E. Houston Street
San Antonio, Texas 78205
Attn: Vice President and General Counsel
(210) 351-3427 (telephone)
(210) 351-3630 (fax)
thartma@corp.sbc.com (e-mail)

¹ SBC's in-region markets include: Arkansas, California, Connecticut, Illinois, Indiana, Kansas, Michigan, Missouri, Nevada, Ohio, Oklahoma, Texas and Wisconsin.

III. Name, Address and Telephone Number of Corporate Contact

The person to contact regarding SBC Telecom's operations subsequent to certification is:

Thomas W. Troll
Director-Regulatory Relations
SBC Telecom, Inc.
175 E. Houston Street
Room 4-R-5
San Antonio, Texas 78205
(210) 351-2860 (telephone)
(210) 554-7135 (fax)
ttroll@corp.sbc.com (e-mail)

IV. Name, Address and Telephone Number of Regulatory Contact

All correspondence, notices and inquiries regarding this Application should be addressed to SBC Telecom's counsel:

D. Billye Sanders, Esq.
Waller Lansden Dortch & Davis
A Professional Limited Liability Company
Nashville City Center
511 Union Street, Suite 2100
P.O. Box 198966
Nashville, Tennessee 37219-8966
(615) 252-2451 (telephone)
(615) 244-6804 (fax)
bsanders@wallerlaw.com

Thomas W. Hartmann, Esq.
Vice President and General Counsel
SBC Telecom, Inc.
175 E. Houston Street, Room 1256
San Antonio, Texas 78205
(210) 351-3427 (telephone)
(210) 351-3630 (fax)
thartma@corp.sbc.com (e-mail)

OF COUNSEL:
William A. Adams, Esq.
ARTER & HADDEN LLP
One Columbus
10 West Broad Street, Suite 2100
Columbus, Ohio 43215
(614) 221-3155 (telephone)
(614) 221-0479 (fax)
wadams@arterhadden.com (e-mail)

V. Articles of Incorporation and Certificate of Authority to Transact Business in the State of Tennessee

SBC Telecom is a corporation created and existing under the laws of the State of Delaware. Copies of SBC Telecom's Articles of Incorporation and Certificate of Authority to Transact Business in the State of Tennessee are attached as Exhibit A.

VI. Repair and Maintenance Information

The name and address of the contact person responsible for customer service, repairs, and maintenance is:

Jacqueline Luzier
Executive Director-Customer Care
SBC Telecom, Inc.
5850 W. Las Positas
Room 756
Pleasanton, California 94588
(925) 468-5390 (telephone)
(925) 468-4724 (fax)
jl1758@pbcomm.com (e-mail)

Prior to becoming operational, SBC Telecom will establish a service center with a toll free number that SBC Telecom customers can access seven days a week, 24 hours a day.

VII. Applicant's Officers and Addresses

SBC Telecom's officers and addresses are:

Ronald L. Blake
President
111 Soledad
San Antonio, Texas 78205

Mark Boright
Vice President & Chief Financial Officer
111 Soledad
San Antonio, Texas 78205

Patricia Diaz Dennis
Senior Vice President-Regulatory and
Public Affairs
175 East Houston Street, Room 5-A-50
San Antonio, Texas 78205

Paul R. Roth
Vice President
111 Soledad
San Antonio, Texas 78205

Timothy Harden
Vice President, Operations
111 Soledad
San Antonio, Texas 78205

Roger Wohler
Vice President & Treasurer
175 East Houston Street
San Antonio, Texas 78205

Thomas W. Hartmann, Esq.
Vice President, General Counsel
and Secretary
175 East Houston Street, Room 1256
San Antonio, Texas 78205

James DeVries
Vice President of Human Resources
111 Soledad
San Antonio, Texas 78205

These officers are responsible for Tennessee operations.

VIII. Local Services to be Offered

The local and interexchange services SBC Telecom plans to offer include voice and data services to business and residential customers. As part of its local exchange service offering, SBC Telecom will provide customers access to 911 and E911 emergency services; white pages and directory assistance; consumer access to and support for the Tennessee Relay Center in the same manner as the incumbent local exchange telephone companies; free blocking for 900, 976 type services in accordance with TRA policy; Lifeline and Link-up services to qualifying customers; and educational discounts in existence as of June 6, 1995. SBC Telecom will also provide operator call completion services, access to interexchange carriers, and custom calling features. The services to be offered will be set forth in a tariff SBC Telecom will file after it completes its network implementation strategy and obtains requisite interconnection agreements. The tariff will be filed with the TRA before beginning service.

IX. Jurisdictions Where Service is Provided

SBC Telecom currently does not provide service in any other jurisdictions; however, it has received authority to offer local services in the Commonwealth of Massachusetts, the District of Columbia, and the States of Florida and Washington. SBC Telecom has not been denied certification in any state.

X. Geographic Areas to be Served

SBC Telecom seeks authority at this time to provide service throughout the State of Tennessee in any areas that are now or subsequently will become open to competition under federal and Tennessee law. SBC Telecom initially intends to serve the Nashville and Memphis Metropolitan Statistical Areas that are in the exchanges of BellSouth Telecommunications Inc. ("BellSouth").

XI. Statement of Financial Capability

SBC Telecom has the financial resources to provide competitive local exchange and interexchange service in the State of Tennessee. SBC Telecom will receive funding to begin operations in Tennessee from its parent company, SBC. Attached as Exhibit B is the SBC 10-Q report for the third quarter of 1999, which includes pro forma combined SBC/Ameritech financial information. SBC's pro forma consolidated 1998 operating revenues, including the results from Ameritech, were approximately \$46 billion, with a net income of over \$7.6 billion. SBC's pro forma income statements and balance sheets appear beginning on page 27 of that report. SBC financial information exclusive of Ameritech results is contained in SBC's 1998 Annual Report, which is attached as Exhibit C.

XII. Statement of Managerial Capability

SBC Telecom's parent corporation, SBC, is a holding company whose subsidiaries and affiliates operate predominantly in the communications services industry and have provided telecommunications services for over 100 years. SBC's subsidiaries and affiliates provide landline telecommunications and related services in Arkansas, California, Connecticut, Illinois, Indiana, Kansas, Michigan, Missouri, Nevada, Ohio, Oklahoma, Texas and Wisconsin; wireless telecommunications and related services in these states, as well as Delaware, Hawaii, Maryland, Massachusetts, Minnesota, New York, Pennsylvania, Rhode Island, Virginia, and Washington, D.C; and security and monitoring services in most of the United States' largest metropolitan areas. SBC has investments in telecommunications companies that serve selected markets outside of the United States, including Belgium, Canada, Denmark, France, Switzerland,

Hungary, Mexico, Puerto Rico, South Africa, and Taiwan, among others. SBC also has investments in Israel, through which it provides cable TV, directory publishing, long distance and software development.

SBC Telecom's executive officers have been recruited from SBC and its affiliates, and are among its key managers with considerable experience in the telecommunications industry, including operations, interconnection, network, marketing, sales, finance, regulatory and legal issues. A brief synopsis of the managerial experience of each of SBC Telecom's executive officers is set forth in Exhibit D.

XIII. Statement of Technical Capability

SBC Telecom possesses the technical expertise to provide competitive local exchange and interexchange service in the State of Tennessee. SBC Telecom is staffing its operations with employees who have a broad range of experience and expertise in provisioning facilities and services. These employees will build, acquire or obtain access to the network and systems necessary to provide local exchange, interexchange and related services, and will develop the product distribution channels and service strategies to enable SBC Telecom to compete successfully. Timothy Harden, SBC Telecom's Vice President of Operations, will lead SBC Telecom's technical staff. A synopsis of his experience is included in Exhibit D.

Evaluation of customer expectations, economic analyses, vendor and service provider negotiations and other critical discussions are underway to determine the optimal network implementation strategy. SBC Telecom anticipates that these analyses and negotiations will produce an initial network implementation strategy consisting of some combination of (1) deploying its own network infrastructure; (2) leasing capacity from other network providers; (3) strategic partnership agreements with other service providers; and/or (4) combining unbundled network elements and some resale of telecommunications services from incumbent local exchange carriers.

The network infrastructure and design are expected to consist of voice switching equipment; data switching and routing equipment; fiber transport; customer access equipment;

service platforms (i.e., network features and functions that allow the provision of custom services); operations support systems (OSS); billing and customer care infrastructure; as well as adjunct infrastructure such as floor space, power equipment, interface equipment, and alarm and monitoring equipment. SBC Telecom will direct and control, as much as possible, the provision and use of facilities, including network elements, whether they are owned, leased or otherwise obtained to ensure the high level of service quality, technical excellence, and overall customer satisfaction which SBC provides in the markets it serves.

XIV. Small and Minority-Owned Telecommunications Business Participation Plan

Attached as Exhibit E is SBC's Small and Minority-Owned Telecommunications Business Participation Plan, which is submitted pursuant to the requirements of T.C.A. § 65-5-212.

XV. Franchises, etc.

SBC Telecom does not currently hold any franchises from any local government for the provision of telecommunications services. SBC Telecom will, as necessary, obtain such local franchises, permits or licenses in accordance with applicable law, and submit such franchises to the TRA for approval pursuant to T.C.A. § 65-4-107.

XVI. Interconnection Agreements and IntraLATA Toll Dialing Parity Plan

SBC Telecom will enter into interconnection agreements with BellSouth and other carriers as needed, and will seek approval of such agreements by the TRA. SBC Telecom will provide equal access to its network to certified or TRA authorized carriers as set forth in its IntraLATA Toll Dialing Parity Plan attached as Exhibit F.

XVII. Accounting System

SBC Telecom will maintain its books and records in accordance with Generally Accepted Accounting Principles ("GAAP").

XVIII. Pre-filed Testimony

Notarized, pre-filed testimony will be submitted prior to the hearing on this Application.

XIX. Notice

Notice of this Application will be served upon incumbent local exchange carriers certified to provide service in the State of Tennessee as provided to SBC Telecom by the TRA and listed in the Notice of Filing of Application, which is attached as Exhibit G.

XX. Conclusion

As demonstrated in this Application, SBC Telecom is legally, financially and technically qualified to provide local telecommunications services in the State of Tennessee.

WHEREFORE, SBC Telecom respectfully requests that the TRA grant it a Certificate of Public Convenience and Necessity to provide facilities-based and resold competing local exchange and interexchange telecommunications services within the State of Tennessee.

Respectfully submitted this 14th day of January, 2000

OF COUNSEL:

William A. Adams, Esq.
ARTER & HADDEN LLP
One Columbus
10 West Broad Street, Suite 2100
Columbus, Ohio 43215
(614) 221-3155 (telephone)
(614) 221-0479 (fax)
wadams@arterhadden.com (e-mail)

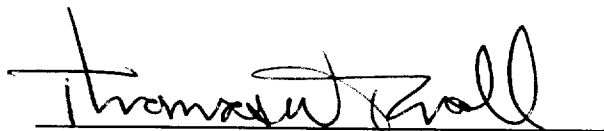
By: D. Billye Sanders
D. Billye Sanders, Esq.
Waller Lansden Dortch & Davis
A Professional Limited Liability Company
Nashville City Center
511 Union Street, Suite 2100
P.O. Box 198966
Nashville, Tennessee 37219-8966
(615) 252-2451 (telephone)
(615) 244-6804 (fax)
bsanders@wallerlaw.com

Thomas W. Hartmann, Esq.
Vice President and General Counsel
SBC Telecom, Inc.
175 E. Houston Street, Room 1256
San Antonio, Texas 78205
(210) 351-3427 (telephone)
(210) 351-3630 (fax)
thartma@corp.sbc.com (e-mail)

VERIFICATION

STATE OF TEXAS)
) SS.
COUNTY OF BEXAR)

I, Thomas W. Troll, Director-Regulatory Relations of SBC Telecom, Inc., being duly sworn according to law, depose and say that I am duly authorized to make this verification; that my position includes responsibility for complying with all state and federal regulations for SBC Telecom, Inc.; that, pursuant to Rule 1220-4-8-.04(1)(a) of the Rules of the Tennessee Regulatory Authority, SBC Telecom, Inc. agrees to adhere to all applicable statutes and all applicable Orders, rules, and regulations entered and adopted by the Tennessee Regulatory Authority; and that the facts set forth in the above Application are true and correct to the best of my knowledge, information and belief.



Thomas W. Troll,
SBC Telecom, Inc.
Director-Regulatory Relations

Subscribed and sworn to before me this 13th day of January, 2000.



Notary Public



My Commission expires: _____

WALLER LANSDEN DORTCH & DAVIS

A PROFESSIONAL LIMITED LIABILITY COMPANY

NASHVILLE CITY CENTER

511 UNION STREET, SUITE 2100

POST OFFICE BOX 198966

NASHVILLE, TENNESSEE 37219-8966

(615) 244-6380

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D Billye Sanders

(615) 252-2451

bsanders@wallerlaw.com

200 JAN 27 PM 4 11

809 SOUTH MAIN STREET

P. O. Box 1035

COLUMBIA, TN 38402-1035

(931) 388-6031

January 27, 2000

Via Hand-Delivery

Ms. Deborah Webb

Tennessee Regulatory Authority

460 James Robertson Parkway

Nashville, Tennessee 37219

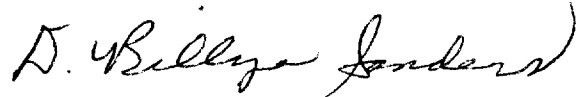
Re: SBC Telecom, Inc.; Docket No. 00-00025

Dear Deborah:

Enclosed you will find a one-sided copy of Exhibit B - SBC Communications, Inc.'s 10Q Report for the third quarter of 1999 and Exhibit C - SBC Communications, Inc.'s 1998 Annual Report. These one-sided copies are being provided pursuant to your request.

Please contact me if you need anything further.

Sincerely,



D. Billye Sanders

DBS:lmb

w/Enclosures

EXHIBIT A

***Articles of Incorporation as Amended
and Certificate of Authority to Transact
Business in the State of Tennessee***

Office of the Secretary of State

I, EDWARD J. FREEL, SECRETARY OF STATE OF THE STATE OF DELAWARE, DO HEREBY CERTIFY THE ATTACHED IS A TRUE AND CORRECT COPY OF THE CERTIFICATE OF AMENDMENT OF "SBC NATIONAL, INC.", CHANGING ITS NAME FROM "SBC NATIONAL, INC." TO "SBC TELECOM, INC.", FILED IN THIS OFFICE ON THE FOURTEENTH DAY OF OCTOBER, A.D. 1999, AT 10 O'CLOCK A.M.

A FILED COPY OF THIS CERTIFICATE HAS BEEN FORWARDED TO THE NEW CASTLE COUNTY RECORDER OF DEEDS.



2969037 8100

991434470


Edward J. Freel, Secretary of State

0026606

AUTHENTICATION:

DATE:

10-14-99

CERTIFICATE OF AMENDMENT
OF
CERTIFICATE OF INCORPORATION
OF
SBC NATIONAL, INC.

SBC National, Inc., a corporation organized and existing under and by virtue of the General Corporation Law of the State of Delaware, DOES HEREBY CERTIFY:

FIRST: That, by unanimous written consent of the Board of Directors of SBC National, Inc., of action taken in lieu of a special meeting, in accordance with Section 141 (f) of the General Corporation Law of the State of Delaware, resolutions were duly adopted setting forth a proposed amendment to the Certificate of Incorporation of said corporation, declaring said amendment to be advisable and calling for a meeting of the shareholder of the said corporation for consideration thereof.

SECOND: That thereafter, in accordance with the above resolutions, the sole shareholder of said corporation, by a unanimous written consent of the shareholder in lieu of a special meeting of the shareholder, in accordance with Section 228 of the General Corporation Law of the State of Delaware, approved the amendment to ARTICLE ONE as follows:

ARTICLE ONE

"The name of the corporation is SBC Telecom, Inc."

THIRD: That said amendment was duly adopted in accordance with the provisions of

Section 242 of the General Corporation Law of the State of Delaware.

IN WITNESS WHEREOF, said SEC National, Inc. has caused this certificate to be signed by Stephen M. Carter, its Chairman of the Board of Directors, and attested by Edward L. Eckhart, its Vice President, General Counsel and Secretary, this 16th day of October, 1999.

SEC NATIONAL, INC.

By: 

Stephen M. Carter
Chairman of the Board

Attest:

By: 

Edward L. Eckhart
Vice President, General Counsel and Secretary

State of Delaware
Office of the Secretary of State

PAGE 1

I, EDWARD J. FREEL, SECRETARY OF STATE OF THE STATE OF DELAWARE, DO HEREBY CERTIFY THE ATTACHED IS A TRUE AND CORRECT COPY OF THE CERTIFICATE OF INCORPORATION OF "SBC NATIONAL, INC.", FILED IN THIS OFFICE ON THE TWENTIETH DAY OF NOVEMBER, A.D. 1998, AT 11:15 O'CLOCK A.M.



A handwritten signature in cursive script, reading "Edward J. Freel", is written over a horizontal line.

Edward J. Freel, Secretary of State

AUTHENTICATION:

2969037 8300

DATE: 9420002

981449820

11-23-98

CERTIFICATE OF INCORPORATION
OF
SBC NATIONAL, INC.

ARTICLE ONE

The name of the corporation is SBC National, Inc.

ARTICLE TWO

The address of the registered office of the Corporation in the State of Delaware is Corporation Trust Center, 1209 Orange Street, Wilmington, New Castle County, Delaware 19801. The name of the registered agent of the Corporation at such address is The Corporation Trust Company.

ARTICLE THREE

The purpose of the Corporation is to engage in any lawful act or activity for which Corporations may be organized under the General Corporation Law of the State of Delaware.

ARTICLE FOUR

The total number of shares of stock which the Corporation is authorized to issue is one thousand (1,000) shares of common stock, having a par value of one dollar (\$1.00) per share.

ARTICLE FIVE

The business and affairs of the Corporation shall be managed by the Board of Directors. The directors need not be elected by ballot unless required by the Bylaws of the Corporation.

No director of this Corporation shall be liable to this Corporation or its stockholders for monetary damages, for breach of fiduciary duty as a director, except for liability 1) for any breach of the director's duty of loyalty to the Corporation or its stockholders; 2) for acts or omissions not in good faith of which involve intentional misconduct or knowing violation of the law; or 3) for any transaction from which a director derived an improper benefit.

ARTICLE SIX

In furtherance and not in limitation of the powers conferred by the laws of the State of Delaware, the Board of Directors is expressly authorized to adopt, amend or repeal the Bylaws.

ARTICLE SEVEN

The initial Board of Directors of the Corporation shall be constituted of the following individuals having the respective business office addresses stated herein:

Stephen M. Carter	One Bell Plaza, Dallas, Texas 75202
Liam S. Coonan	175 East Houston, San Antonio, TX 78205
Terry Bailey	One Bell Plaza, Dallas, Texas 75202

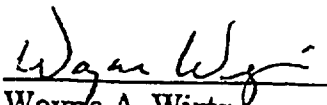
ARTICLE EIGHT

The Corporation reserves the right to amend and repeal any provision contained in this Certificate of Incorporation in the manner prescribed by the laws of the State of Delaware. All rights herein conferred are granted subject to this reservation.

ARTICLE NINE

The incorporator is Wayne A. Wirtz, whose mailing address is 175 East Houston Street, San Antonio, Texas 78205.

I, the undersigned, being the incorporator, for the purpose of forming a corporation under the laws of the State of Delaware do make, file and record this Certificate of Incorporation, do certify that the facts herein stated are true, and, accordingly, have hereto set my hand this 20th day of November, 1998.


Wayne A. Wirtz

Secretary of State

Corporations Section

James K. Polk Building, Suite 1800

Nashville, Tennessee 37243-0306

DATE: 12/08/99
REQUEST NUMBER: 3777-0870
TELEPHONE CONTACT: (615) 741-2286
FILE DATE/TIME: 12/08/99 1130
EFFECTIVE DATE/TIME: 12/08/99 1130
CONTROL NUMBER: 0380950

TO:
SBC TELECOM, INC.
175 EAST HOUSTON
SAN ANTONIO, TX 78205

RE:
SBC TELECOM, INC.
APPLICATION FOR CERTIFICATE OF AUTHORITY -
FOR PROFIT

WELCOME TO THE STATE OF TENNESSEE. THE ATTACHED CERTIFICATE OF AUTHORITY HAS BEEN FILED WITH AN EFFECTIVE DATE AS INDICATED ABOVE.

A CORPORATION ANNUAL REPORT MUST BE FILED WITH THE SECRETARY OF STATE ON OR BEFORE THE FIRST DATE OF THE FOURTH MONTH FOLLOWING THE CLOSE OF THE CORPORATION'S FISCAL YEAR. PLEASE PROVIDE THIS OFFICE WITH WRITTEN NOTIFICATION OF THE CORPORATION'S FISCAL YEAR. THIS OFFICE WILL MAIL THE REPORT DURING THE LAST MONTH OF SAID FISCAL YEAR TO THE CORPORATION AT THE ADDRESS OF ITS PRINCIPAL OFFICE OR TO A MAILING ADDRESS PROVIDED TO THIS OFFICE IN WRITING. FAILURE TO FILE THIS REPORT OR TO MAINTAIN A REGISTERED AGENT AND OFFICE WILL SUBJECT THE CORPORATION TO ADMINISTRATIVE REVOCATION OF ITS CERTIFICATE OF AUTHORITY.

WHEN CORRESPONDING WITH THIS OFFICE OR SUBMITTING DOCUMENTS FOR FILING, PLEASE REFER TO THE CORPORATION CONTROL NUMBER GIVEN ABOVE.

FOR: APPLICATION FOR CERTIFICATE OF AUTHORITY -
FOR PROFIT

ON DATE: 12/08/99

FROM:
C T CORPORATION SYSTEM (HOUSTON, TX.)
811 DALLAS AVE
HOUSTON, TX 77002-0000

	FEE	
RECEIVED:	\$600.00	\$0.00
TOTAL PAYMENT RECEIVED:		\$600.00

RECEIPT NUMBER: 00002580117
ACCOUNT NUMBER: 00000023



Riley C. Darnell

RILEY C. DARNELL
SECRETARY OF STATE

APPLICATION FOR CERTIFICATE OF AUTHORITY FOR

SBC Telecom, Inc.

To the Secretary of State of the State of Tennessee:

Pursuant to the provisions of Section 48-25-103 of the Tennessee Business Corporation Act, the undersigned corporation hereby applies for a certificate of authority to transact business in the State of Tennessee, and for that purpose sets forth:

1. The name of the corporation is SBC Telecom, Inc.

If different, the name under which the certificate of authority is to be obtained is _____

[NOTE: The Secretary of State of the State of Tennessee may not issue a certificate of authority to a foreign corporation for profit if its name does not comply with the requirements of Section 48-14-101 of the Tennessee Business Corporation Act. If obtaining a certificate of authority under an assumed corporate name, an application must be filed pursuant to Section 48-14-101(d).]

2. The state or country under whose law it is incorporated is Delaware

3. The date of its incorporation is 11/20/98 (must be month, day, and year), and the period of duration, if other than perpetual, is _____

4. The complete street address (including zip code) of its principal office is
175 East Houston, San Antonio, Texas/USA 78205
 Street City State/Country Zip Code

5. The complete street address (including the county and the zip code) of its registered office in this state is
c/o C T CORPORATION SYSTEM, 530 Gay Street, Knoxville, Tennessee, Knox 37902
 Street City/State County Zip Code

The name of its registered agent at that office is
C T CORPORATION SYSTEM

6. The names and complete business addresses (including zip code) of its current officers are: (Attach separate sheet if necessary.)
Please see attached

7. The names and complete business addresses (including zip code) of its current board of directors are: (Attach separate sheet if necessary.)
Please see attached

8. The corporation is a corporation for profit.

9. If the document is not to be effective upon filing by the Secretary of State, the delayed effective date/time is
 _____, 19____ (date), _____ (time).

[NOTE: A delayed effective date shall not be later than the 90th day after the date this document is filed by the Secretary of State.]

[NOTE: This application must be accompanied by a certificate of existence (or a document of similar import) duly authenticated by the Secretary of State or other official having custody of corporate records in the state or country under whose law it is incorporated. The certificate shall not bear a date of more than one (1) month prior to the date the application is filed in this state.]

November 24, 1999
 Signature Date
VP, Genl. Cnsl. and Secy.
 Signer's Capacity

SBC Telecom, Inc.
 Name of Corporation
Thomas W. Hartmann
 Signature
Thomas W. Hartmann
 Named (typed or printed)



1013 1011

1013 1011

SBC TELECOM, INC.
DIRECTORS AND OFFICERS

Stan Sigman, Chairman
175 East Houston Street, San Antonio, Texas 78205

Ron Blake, Director and President
2000 W. Ameritech Center Drive
Room 4-F-82
Hoffman Estates, Illinois 60196

Wayne Watts, Director
175 East Houston Street, San Antonio, Texas 78205

Patricia Diaz Dennis, Senior Vice President-Regulatory and Public Affairs
175 East Houston Street, San Antonio, Texas 78205

Paul Roth, Vice President
111 Soledad, 16th Floor, San Antonio, Texas 78205

Timothy Harden, Vice President
2600 Camino Ramon, Ste. 4CN100, San Ramon, Calif. 94583

Thomas R. Hartmann, Vice President, General Counsel and Secretary
175 East Houston Street, San Antonio, Texas 78205

Mark Boright, Vice President and Chief Financial Officer
111 Soledad, Room 1614, San Antonio, Texas 78205

Michael D. Wagner, Treasurer
175 East Houston Street, San Antonio, Texas 78205

State of Delaware
Office of the Secretary of State

PAGE 1

I, EDWARD J. FREEL, SECRETARY OF STATE OF THE STATE OF DELAWARE, DO HEREBY CERTIFY "SBC TELECOM, INC." IS DULY INCORPORATED UNDER THE LAWS OF THE STATE OF DELAWARE AND IS IN GOOD STANDING AND HAS A LEGAL CORPORATE EXISTENCE SO FAR AS THE RECORDS OF THIS OFFICE SHOW, AS OF THE THIRD DAY OF DECEMBER, A.D. 1999.

AND I DO HEREBY FURTHER CERTIFY THAT THE ANNUAL REPORTS HAVE BEEN FILED TO DATE.

AND I DO HEREBY FURTHER CERTIFY THAT THE FRANCHISE TAXES HAVE BEEN PAID TO DATE.



A handwritten signature in cursive script, reading "Edward J. Freel".

Edward J. Freel, Secretary of State

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AUTHENTICATION:

DATE:

0116737

12-03-99

EXHIBIT B

***SBC Communications Inc.'s 10-Q Report
for the Third Quarter of 1999 which includes Pro Forma
Combined SBC/Ameritech Financial Information***

FORM 10-Q

United States
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

(Mark One)



Quarterly Report Pursuant to Section 13 or 15(d) of the
Securities Exchange Act of 1934

For the quarterly period ended September 30, 1999

or



Transition Report Pursuant to Section 13 or 15(d) of the
Securities Exchange Act of 1934

For the transition period from to

Commission File Number 1-8610

SBC COMMUNICATIONS INC.

Incorporated under the laws of the State of Delaware
I.R.S. Employer Identification Number 43-1301883

175 E. Houston, San Antonio, Texas 78205
Telephone Number: (210) 821-4105

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes X No

At October 29, 1999, 3,411,380,009 common shares were outstanding.

PART I – FINANCIAL INFORMATION

On October 8, 1999, SBC Communications Inc. (SBC) and Ameritech Corporation (Ameritech) completed the merger of an SBC subsidiary with Ameritech. With the merger, Ameritech became a wholly-owned subsidiary of SBC. The transaction was accounted for as a pooling of interests and a tax-free reorganization.

Because the merger was completed after September 30, 1999, the financial information of SBC for the period ended September 30, 1999 is required to be presented on a pre-merger basis. This information follows as Item 1a. Financial Statements and Item 2a. Management's Discussion and Analysis of Financial Condition and Results of Operations. Supplemental pro forma financial information giving effect to the merger and discussing the pro forma results of operations for the combined company is included subsequent to these items as Item 1b. Supplemental Pro Forma Financial Statements and Item 2b. Management's Discussion and Analysis of Financial Condition and Results of Operations.

Item 1a. Financial Statements

SBC COMMUNICATIONS INC.

CONSOLIDATED STATEMENTS OF INCOME

Dollars in millions except per share amounts

(Unaudited)

	Three months ended September 30,		Nine months ended September 30,	
	1999	1998	1999	1998
Operating Revenues				
Landline local service	\$ 2,940	\$ 2,832	\$ 8,667	\$ 8,291
Wireless subscriber	1,299	975	3,391	2,797
Network access	1,713	1,614	5,116	4,861
Long distance service	522	608	1,631	1,791
Directory advertising	546	503	1,537	1,489
Other	745	684	2,135	1,872
Total operating revenues	7,765	7,216	22,477	21,101
Operating Expenses				
Operations and support	4,280	4,072	12,532	11,929
Depreciation and amortization	1,378	1,241	3,898	3,677
Total operating expenses	5,658	5,313	16,430	15,606
Operating Income	2,107	1,903	6,047	5,495
Other Income (Expense)				
Interest expense	(205)	(244)	(641)	(760)
Equity in net income of affiliates	97	55	251	181
Other income (expense) - net	6	287	(74)	209
Total other income (expense)	(102)	98	(464)	(370)
Income Before Income Taxes and Cumulative Effect of Accounting Change	2,005	2,001	5,583	5,125
Income Taxes	727	739	2,014	1,873
Income Before Cumulative Effect of Accounting Change	1,278	1,262	3,569	3,252
Cumulative Effect of Accounting Change, net of tax	-	-	-	15
Net Income	\$ 1,278	\$ 1,262	\$ 3,569	\$ 3,267
Earnings Per Common Share:				
Income Before Cumulative Effect of Accounting Change	\$ 0.65	\$ 0.65	\$ 1.82	\$ 1.66
Net Income	\$ 0.65	\$ 0.65	\$ 1.82	\$ 1.67
Earnings Per Common Share - Assuming Dilution:				
Income Before Cumulative Effect of Accounting Change	\$ 0.64	\$ 0.64	\$ 1.79	\$ 1.64
Net Income	\$ 0.64	\$ 0.64	\$ 1.79	\$ 1.65
Weighted Average Number of Common Shares Outstanding (in millions)	1,967	1,955	1,965	1,956
Dividends Declared Per Common Share	\$ 0.24375	\$ 0.23375	\$ 0.73125	\$ 0.70125

See Notes to Consolidated Financial Statements.

SBC COMMUNICATIONS INC.
CONSOLIDATED BALANCE SHEETS

Dollars in millions except per share amounts

	September 30, 1999 (Unaudited)	December 31, 1998
Assets		
Current Assets		
Cash and cash equivalents	\$ 267	\$ 460
Accounts receivable - net of allowances for uncollectibles of \$487 and \$472	5,524	5,790
Prepaid expenses	628	414
Deferred income taxes	663	489
Other current assets	451	385
Total current assets	7,533	7,538
Property, Plant and Equipment - at cost	76,832	73,466
Less: Accumulated depreciation and amortization	45,635	43,546
Property, Plant and Equipment - Net	31,197	29,920
Intangible Assets - Net of Accumulated Amortization of \$893 and \$741	5,758	3,087
Investments in Equity Affiliates	2,510	2,514
Other Assets	2,138	2,007
Total Assets	\$ 49,136	\$ 45,066
Liabilities and Shareowners' Equity		
Current Liabilities		
Debt maturing within one year	\$ 2,622	\$ 1,551
Accounts payable and accrued liabilities	6,332	6,774
Accrued taxes	1,809	1,206
Dividends payable	480	458
Total current liabilities	11,243	9,989
Long-Term Debt	11,266	11,612
Deferred Credits and Other Noncurrent Liabilities		
Deferred income taxes	2,745	1,990
Postemployment benefit obligation	5,117	5,220
Unamortized investment tax credits	311	359
Other noncurrent liabilities	2,170	2,116
Total deferred credits and other noncurrent liabilities	10,343	9,685
Corporation-obligated mandatorily redeemable preferred securities of subsidiary trusts*	1,000	1,000
Shareowners' Equity		
Common shares issued (\$1 par value)	1,988	1,988
Capital in excess of par value	9,229	9,139
Retained earnings	5,529	3,396
Guaranteed obligations of employee stock ownership plans	(91)	(147)
Deferred compensation - LESOP	(78)	(82)
Treasury shares (at cost)	(692)	(882)
Accumulated other comprehensive income (loss)	(601)	(632)
Total shareowners' equity	15,284	12,780
Total Liabilities and Shareowners' Equity	\$ 49,136	\$ 45,066

* The trusts contain \$1,030 in principal amount of the Subordinated Debentures of Pacific Telesis Group.
See Notes to Consolidated Financial Statements.

SBC COMMUNICATIONS INC.**CONSOLIDATED STATEMENTS OF CASH FLOWS**

Dollars in millions, increase (decrease) in cash and cash equivalents

(Unaudited)

	Nine months ended September 30,	
	1999	1998
Operating Activities		
Net income	\$ 3,569	\$ 3,267
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	3,898	3,677
Undistributed earnings from investments in equity affiliates	(181)	(26)
Provision for uncollectible accounts	374	373
Amortization of investment tax credits	(48)	(54)
Deferred income tax expense	442	344
Cumulative effect of accounting change, net of tax	-	(15)
Other - net	(588)	(1,510)
Total adjustments	3,897	2,789
Net Cash Provided by Operating Activities	7,466	6,056
Investing Activities		
Construction and capital expenditures	(4,741)	(4,191)
Investments in affiliates	(45)	(54)
Purchase of short-term investments	(26)	(41)
Proceeds from short-term investments	6	324
Dispositions	475	733
Acquisitions	(1,134)	-
Other	2	6
Net Cash Used in Investing Activities	(5,463)	(3,223)
Financing Activities		
Net change in short-term borrowings with original maturities of three months or less	948	(197)
Issuance of other short-term borrowings	-	2
Repayment of other short-term borrowings	-	(8)
Issuance of long-term debt	6	394
Repayment of long-term debt	(1,909)	(1,019)
Issuance of common shares	-	57
Purchase of treasury shares	(21)	(497)
Issuance of treasury shares	197	176
Dividends paid	(1,417)	(1,350)
Net Cash Used in Financing Activities	(2,196)	(2,442)
Net increase (decrease) in cash and cash equivalents	(193)	391
Cash and cash equivalents beginning of period	460	410
Cash and Cash Equivalents End of Period	\$ 267	\$ 801
Cash paid during the nine months ended September 30 for:		
Interest	\$ 684	\$ 861
Income taxes, net of refunds	\$ 1,045	\$ 1,084

See Notes to Consolidated Financial Statements.

SBC COMMUNICATIONS INC.

CONSOLIDATED STATEMENT OF SHAREOWNERS' EQUITY

Dollars in millions
(Unaudited)

	Common Shares	Capital in Excess of Par Value	Retained Earnings	Guaranteed Obligations of Employee Stock Ownership Plans	Deferred Compensation - LESOP	Treasury Shares	Accumulated Other Comprehensive Income (Loss)
Balance, December 31, 1998	\$ 1,988	\$ 9,139	\$ 3,396	\$ (147)	\$ (82)	\$ (882)	\$ (632)
Net income	-	-	3,569	-	-	-	-
Other comprehensive income	-	-	-	-	-	-	31
Dividends to shareowners	-	-	(1,437)	-	-	-	-
Reduction of debt associated with Employee Stock Ownership Plans	-	-	-	56	-	-	-
Cost of LESOP trust shares allocated to employee accounts	-	-	-	-	4	-	-
Purchase of treasury shares	-	-	-	-	-	(21)	-
Issuance of treasury shares	-	(11)	-	-	-	211	-
Other	-	101	1	-	-	-	-
Balance, September 30, 1999	\$ 1,988	\$ 9,229	\$ 5,529	\$ (91)	\$ (78)	\$ (692)	\$ (601)

See Notes to Consolidated Financial Statements.

SELECTED FINANCIAL AND OPERATING DATA

At September 30, or for the nine months then ended:

	1999	1998
Debt ratio.....	46.03%	51.42%
Network access lines in service (000).....	38,132	36,944
Resold lines (000)	972	748
Access minutes of use (000,000)	116,115	110,869
Wireless customers (000).....	8,885	6,467
Number of employees	133,260	129,000

SBC COMMUNICATIONS INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

Dollars in millions except per share amounts

- 1. BASIS OF PRESENTATION** The consolidated financial statements have been prepared by SBC Communications Inc. (SBC) pursuant to the rules and regulations of the Securities and Exchange Commission (SEC) and, in the opinion of management, include all adjustments (consisting only of normal recurring accruals) necessary to present fairly the results for the interim periods shown. Certain information and footnote disclosures, normally included in financial statements prepared in accordance with generally accepted accounting principles, have been condensed or omitted pursuant to such SEC rules and regulations. The results for the interim periods are not necessarily indicative of results for the full year. The consolidated financial statements contained herein should be read in conjunction with the consolidated financial statements and notes thereto included in SBC's 1998 Annual Report to Shareowners.
- 2. CONSOLIDATION** The consolidated financial statements include the accounts of SBC and its majority-owned subsidiaries. All significant intercompany transactions are eliminated in the consolidation process. Investments in partnerships, joint ventures and less than majority-owned subsidiaries are principally accounted for under the equity method. Earnings from foreign investments accounted for under the equity method are included for periods ended within three months of the date of SBC's Consolidated Statements of Income.
- 3. CUMULATIVE EFFECT OF CHANGE IN DIRECTORY ACCOUNTING** Prior to January 1, 1998, SNET Information Services, Inc. recognized revenues and expenses related to publishing directories using the "amortization" method, under which revenues and expenses were recognized over the lives of the directories, generally one year. Effective January 1, 1998, the accounting was changed to the "issue basis" method of accounting, which recognizes the revenues and expenses at the time the related directory is published. The change in methodology was made because the issue basis method is generally followed in the publishing industry, including Southwestern Bell Yellow Pages, Inc. and Pacific Bell Directory, and better reflects the operating activity of the business.

The cumulative after-tax effect of applying the change in method to prior years was recognized as of January 1, 1998 as a one-time, non-cash gain applicable to continuing operations of \$15, or \$0.01 per share. The gain is net of deferred taxes of \$11.

SBC COMMUNICATIONS INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) - Continued
Dollars in millions except per share amounts

4. **COMPREHENSIVE INCOME** The components of SBC's comprehensive income for the third quarter and nine months ended September 30, 1999 and 1998 include net income and adjustments to shareowners' equity for the foreign currency translation adjustment and net unrealized gain on securities.

Following is SBC's comprehensive income:

	Three months ended September 30,		Nine months ended September 30,	
	1999	1998	1999	1998
Net income	\$ 1,278	\$ 1,262	\$ 3,569	\$ 3,267
Other comprehensive income, net of tax:				
Foreign currency translation adjustment	11	15	31	(61)
Net unrealized gain on securities:				
Unrealized gain on available for sale securities	-	83	-	83
Less: reclassification adjustment for gains included in net income	-	(1)	-	(1)
Net unrealized gain on securities	-	82	-	82
Other comprehensive income	11	97	31	21
Total comprehensive income	\$ 1,289	\$ 1,359	\$ 3,600	\$ 3,288

5. **MERGER AGREEMENT WITH AMERITECH CORPORATION** On October 8, 1999, SBC and Ameritech Corporation (Ameritech) completed the merger of an SBC subsidiary with Ameritech, in a transaction in which each share of Ameritech common stock was exchanged for 1.316 shares of SBC common stock (equivalent to approximately 1,450 million shares). Ameritech became a wholly-owned subsidiary of SBC effective with the merger, and the transaction has been accounted for as a pooling of interests and a tax-free reorganization. The financial statements giving effect to the merger are presented in Item 1b. Supplemental Pro Forma Financial Statements.

The Federal Communications Commission (FCC) approved the merger in October 1999, subject to certain conditions, including accelerated entry into new markets, so that SBC will offer wireline services in 30 new markets within 30 months after the merger closes. In addition, SBC established a separate subsidiary to provide advanced services such as Asymmetrical Digital Subscriber Line and agreed not to charge residential customers minimum monthly long distance fees for at least three years after entering the long distance market. The FCC conditions require specific performance and reporting provisions and contain enforcement provisions that could potentially trigger more than \$2 billion in payments if certain goals are not met, including among other items, failure to achieve entrance into the 30 markets within 30 months could result in a violation of \$40 per market missed.

SBC estimates additional costs of approximately \$500 will be incurred in 2000 to comply with these conditions.

As a condition of the merger, Ameritech sold on October 8, 1999, 20 Midwestern cellular properties including the competing cellular licenses in several markets, including, but not limited to, Chicago, Illinois, and St. Louis, Missouri. The after-tax gain from this sale totals approximately \$1.4 billion and will be recognized in the fourth quarter of 1999.

SBC COMMUNICATIONS INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) - Continued

Dollars in millions except per share amounts

6. **COMPLETION OF MERGERS** On April 1, 1997, SBC and Pacific Telesis Group (PAC) completed the merger of an SBC subsidiary with PAC, in a transaction in which each outstanding share of PAC common stock was exchanged for 1.4629 shares of SBC common stock (equivalent to approximately 626 million shares). With the merger, PAC became a wholly-owned subsidiary of SBC. The transaction has been accounted for as a pooling of interests and a tax-free reorganization.

On October 26, 1998, SBC and Southern New England Telecommunications Corporation (SNET) completed the merger of an SBC subsidiary with SNET, in a transaction in which each share of SNET common stock was exchanged for 1.7568 shares of SBC common stock (equivalent to approximately 120 million shares). SNET became a wholly-owned subsidiary of SBC effective with the merger, and the transaction has been accounted for as a pooling of interests and a tax-free reorganization.

Post-merger initiatives

During the second quarter of 1997, SBC announced after-tax charges of \$1.6 billion related to several strategic decisions resulting from the merger integration process that began with the April 1, 1997 closing of its merger with PAC, which included \$165 (\$101 after tax) of charges related to several regulatory rulings during the second quarter of 1997 and \$281 (\$176 after tax) for merger approval costs. The decisions resulted from an extensive review of operations throughout the merged company and include significant integration of operations and consolidation of some administrative and support functions.

During the fourth quarter of 1998, SBC again performed a complete review of all operations affected by the merger with SNET to determine the impact on ongoing merger integration processes. Review teams examined operational functions and evaluated all strategic initiatives. As a result of this review, SBC announced net after-tax charges of \$268 related to strategic decisions arising from the review and expensing of merger-related costs incurred by SNET.

One-time charges related to the strategic decisions reached by the review teams totaled \$403 (\$249 after tax) in the fourth quarter of 1998 and \$2 billion (\$1.3 billion after tax) in the second quarter of 1997. Remaining accruals for anticipated cash expenditures related to these decisions were approximately \$136 at September 30, 1999 and \$323 at December 31, 1998.

In addition, SBC is currently conducting a review of best practices and strategic initiatives in the merged company. Review teams have been formed and are conducting comprehensive reviews of all phases of SBC's operations. The review teams may determine significant charges are required from those reviews. The teams are expected to conclude their reviews in the fourth quarter of 1999. Management anticipates the previous initiatives from the PAC and SNET mergers will be assimilated into the current review process, and amounts, if appropriate, will be adjusted.

In October 1999, SBC launched an initiative to provide advanced broadband services to many of its U.S. wireline customers (Project Pronto). As part of Project Pronto, SBC expects to make Digital Subscriber Line (DSL) available to approximately 80% of its customers over the next three years. With the launch of Project Pronto and the FCC's recent rulings on data services and unbundled network element pricing, SBC began reviewing and evaluating the carrying value of its network plant in its traditional wireline operations. SBC is assessing whether these changes, including the associated migration of certain customers to the new network envisioned by Project Pronto, affects the net book values of the existing network elements. SBC anticipates concluding this assessment in the fourth quarter of 1999 and accounting charges, if any, could be material.

SBC COMMUNICATIONS INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) - Continued
Dollars in millions except per share amounts

7. SUBSIDIARY FINANCIAL INFORMATION The following tables present summarized financial information for PAC:

	September 30, 1999	December 31, 1998
Balance Sheets		
Current assets	\$ 3,280	\$ 3,037
Noncurrent assets	\$ 15,193	\$ 15,428
Current liabilities	\$ 4,829	\$ 5,278
Noncurrent liabilities	\$ 10,178	\$ 10,482
<hr/>		
Nine months ended September 30,	1999	1998
Income Statements		
Operating revenues	\$ 8,846	\$ 8,368
Operating income	\$ 2,338	\$ 2,029
Net income	\$ 1,254	\$ 984

SBC has not provided separate financial statements and other disclosures for PAC as management has determined that such information is not material to the holders of the Trust Originated Preferred Securities, which have been guaranteed by SBC.

The following tables present summarized financial information for Southwestern Bell Telephone Company (SWBell):

	September 30, 1999	December 31, 1998
Balance Sheets		
Current assets	\$ 2,554	\$ 2,538
Noncurrent assets	\$ 13,795	\$ 13,241
Current liabilities	\$ 5,390	\$ 4,679
Noncurrent liabilities	\$ 7,715	\$ 7,838
<hr/>		
Nine months ended September 30,	1999	1998
Income Statements		
Operating revenues	\$ 8,375	\$ 8,044
Operating income	\$ 2,400	\$ 2,204
Net income	\$ 1,340	\$ 1,207

SBC has not provided separate financial statements and other disclosures for SWBell as management has determined that such information is not material to the holders of SWBell's certain outstanding debt securities, which have been guaranteed by SBC.

SBC COMMUNICATIONS INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) - Continued
Dollars in millions except per share amounts

The following tables present summarized financial information for Pacific Bell (PacBell):

	September 30, 1999	December 31, 1998
Balance Sheets		
Current assets	\$ 2,610	\$ 2,431
Noncurrent assets	\$ 13,104	\$ 12,662
Current liabilities	\$ 4,379	\$ 4,445
Noncurrent liabilities	\$ 7,423	\$ 7,388

Nine months ended September 30,	1999	1998
Income Statements		
Operating revenues	\$ 7,245	\$ 6,981
Operating income	\$ 1,852	\$ 1,788
Net income	\$ 968	\$ 893

SBC has not provided separate financial statements and other disclosures for PacBell as management has determined that such information is not material to the holders of PacBell's certain outstanding debt securities, which have been guaranteed by SBC.

SBC COMMUNICATIONS INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) - Continued
Dollars in millions except per share amounts

8. **EARNINGS PER SHARE** A reconciliation of the numerators and denominators of basic earnings per share and diluted earnings per share for income before cumulative effect of accounting change for the third quarter and nine months ended September 30, 1999 and 1998 are shown in the table below.

	Three months ended September 30,		Nine months ended September 30,	
	1999	1998	1999	1998
Numerators				
Numerator for basic earnings per share:				
Income before cumulative effect of accounting change	\$ 1,278	\$ 1,262	\$ 3,569	\$ 3,252
Dilutive potential common shares:				
Other stock-based compensation	1	1	3	2
Numerator for diluted earnings per share	\$ 1,279	\$ 1,263	\$ 3,572	\$ 3,254
Denominators				
Denominator for basic earnings per share:				
Weighted average number of common shares outstanding (000)	1,967,403	1,954,616	1,964,511	1,956,498
Dilutive potential common shares (000):				
Stock options	24,255	20,014	24,860	20,792
Other stock-based compensation	6,750	5,651	6,329	5,488
Denominator for diluted earnings per share	1,998,408	1,980,281	1,995,700	1,982,778
Basic earnings per share:				
Income before cumulative effect of accounting change	\$ 0.65	\$ 0.65	\$ 1.82	\$ 1.66
Cumulative effect of accounting change	-	-	-	0.01
Net income	\$ 0.65	\$ 0.65	\$ 1.82	\$ 1.67
Diluted earnings per share:				
Income before cumulative effect of accounting change	\$ 0.64	\$ 0.64	\$ 1.79	\$ 1.64
Cumulative effect of accounting change	-	-	-	0.01
Net income	\$ 0.64	\$ 0.64	\$ 1.79	\$ 1.65

9. **SEGMENT INFORMATION** SBC has four reportable segments: Wireline, Wireless, Directory and Other. The Wireline segment provides landline telecommunications services, including local, network access and long distance services, messaging and Internet services and sells customer premise and private business exchange equipment. The Wireless segment provides wireless telecommunications services, including local and long distance services, and sells wireless equipment. The Directory segment includes advertising, yellow pages, white pages and electronic publishing. The Other segment includes SBC's international investments and other domestic operating subsidiaries.

SBC evaluates performance of these segments based on income before income taxes, adjusted for normalizing (i.e., one-time) items. There were no normalizing items for the quarter and first nine months ended September 30, 1999. Normalized results for the quarter and first nine months ended September 30, 1998 exclude an after-tax gain of \$219 from the sale of certain non-core businesses, principally the required disposition of SBC's investment in Mobile Telephone Networks, a cellular company in South Africa.

SBC COMMUNICATIONS INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) - Continued

Dollars in millions except per share amounts

The following tables present segment information for SBC.

For the three months ended September 30, 1999	Revenues from external customers	Intersegment revenues	Income before income taxes
Wireline	\$ 5,769	\$ 32	\$ 1,228
Wireless	1,415	1	274
Directory	535	15	267
Other	46	-	75
Corporate, Adjustments & Eliminations	-	(48)	161
Normalizing adjustments	-	-	-
Total	\$ 7,765	\$ -	\$ 2,005

For the three months ended September 30, 1998	Revenues from external customers	Intersegment revenues	Income before income taxes
Wireline	\$ 5,647	\$ 21	\$ 1,211
Wireless	1,073	(1)	149
Directory	461	13	212
Other	24	-	30
Corporate, Adjustments & Eliminations	11	(33)	41
Normalizing adjustments	-	-	358
Total	\$ 7,216	\$ -	\$ 2,001

At September 30, 1999 or for the nine months ended	Revenues from external customers	Intersegment revenues	Income before income taxes	Segment assets
Wireline	\$ 17,132	\$ 101	\$ 3,826	\$ 34,643
Wireless	3,740	1	639	9,569
Directory	1,496	65	693	1,111
Other	91	-	311	3,654
Corporate, Adjustments & Eliminations	18	(167)	114	159
Normalizing adjustments	-	-	-	-
Total	\$ 22,477	\$ -	\$ 5,583	\$ 49,136

At September 30, 1998 or for the nine months ended	Revenues from external customers	Intersegment revenues	Income before income taxes	Segment assets
Wireline	\$ 16,456	\$ 105	\$ 3,501	\$ 33,302
Wireless	3,064	1	392	7,004
Directory	1,409	60	625	1,080
Other	63	-	226	3,352
Corporate, Adjustments & Eliminations	109	(166)	23	633
Normalizing adjustments	-	-	358	-
Total	\$ 21,101	\$ -	\$ 5,125	\$ 45,371

10. **SOFTWARE COSTS** The American Institute of Certified Public Accountants issued a Statement of Position (SOP) that requires capitalization of certain computer software expenditures beginning in 1999. The SOP, which has been adopted prospectively as of January 1, 1999, requires the capitalization of certain costs incurred in connection with developing or obtaining internal use software. Prior to the adoption of the SOP, the costs of computer software purchased or developed for internal use were

SBC COMMUNICATIONS INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) - Continued

Dollars in millions except per share amounts

expensed as incurred. However, initial operating system software costs were, and continue to be, capitalized.

With comparable levels of software expenditures, the SOP would tend to increase net income in comparison with SBC's former method of accounting for software costs. However, the increases would be largest in the year of adoption with diminishing levels of increases compared with current accounting throughout the amortization period. Consequently, given otherwise comparable income levels excluding software, and otherwise comparable software expenditures, the effect of the SOP would be to increase income in the first year and decrease income in each subsequent year until the number of years affected by the SOP equals the amortization period. The effect of adopting the SOP was to increase net income by approximately \$72, or \$0.04 per share assuming dilution, for the third quarter of 1999, and by \$159, or \$0.08 per share assuming dilution, for the first nine months of 1999.

11. **WIRELESS ACQUISITION** On July 8, 1999, SBC completed the acquisition of Comcast Cellular Corporation (Comcast), the wireless subsidiary of Comcast Corporation, in a transaction valued at \$1.8 billion including assumption of \$1.4 billion in debt. The transaction has been accounted for under the purchase method of accounting. Results of operations are included in the consolidated financial statements from the date of the acquisition. With the acquisition, SBC added approximately 862,000 subscribers in Pennsylvania, Delaware, New Jersey and Illinois.

In July 1999, subsequent to the completion of the acquisition, SBC retired virtually all of Comcast's outstanding Senior Notes.

SBC COMMUNICATIONS INC.

Item 2a. Management's Discussion and Analysis of Financial Condition and Results of Operations

Dollars in millions except per share amounts

RESULTS OF OPERATIONS

Overview Financial results for SBC Communications Inc. (SBC) for the third quarter and first nine months of 1999 and 1998 are summarized as follows:

	Third Quarter			Nine-Month Period		
	1999	1998	Percent Change	1999	1998	Percent Change
Operating revenues	\$ 7,765	\$ 7,216	7.6%	\$ 22,477	\$ 21,101	6.5%
Operating expenses	\$ 5,658	\$ 5,313	6.5%	\$ 16,430	\$ 15,606	5.3%
Operating income	\$ 2,107	\$ 1,903	10.7%	\$ 6,047	\$ 5,495	10.0%
Income before income taxes and cumulative effect of accounting change	\$ 2,005	\$ 2,001	0.2%	\$ 5,583	\$ 5,125	8.9%
Income before cumulative effect of accounting change	\$ 1,278	\$ 1,262	1.3%	\$ 3,569	\$ 3,252	9.7%
Cumulative effect of accounting change	-	-	-	-	\$ 15	-
Net income	\$ 1,278	\$ 1,262	1.3%	\$ 3,569	\$ 3,267	9.2%

In the first quarter of 1998, SBC's results reflected a cumulative effect of accounting change related to accounting for directory revenues and expenses (see Note 3 of Notes to Consolidated Financial Statements).

SBC reported net income of \$1,278, or \$0.64 per share assuming dilution, for the third quarter of 1999 and \$3,569, or \$1.79 per share assuming dilution, for the first nine months compared to \$1,262, or \$0.64 per share assuming dilution, in the third quarter of 1998 and \$3,267, or \$1.65 per share assuming dilution, for the first nine months of 1998. SBC's results for the third quarter and nine months of 1998 include after-tax gains of \$219 on sales of certain non-core businesses, principally the required disposition of SBC's investment in Mobile Telephone Networks (MTN), a cellular company in South Africa.

Excluding the 1998 gains, SBC's net income for the third quarter of 1999 increased \$235, or 22.5%, and increased \$521, or 17.1%, for the first nine months of 1999. The primary factors contributing to this increase were growth in demand for services and products in SBC's wireline and wireless operations and a reduction in operating expenses due to merger-related initiatives and benefits.

Segment Results SBC has four reportable segments: Wireline, Wireless, Directory and Other. The Wireline segment provides landline telecommunications services, including local, network access and long distance services, messaging and Internet services and sells customer premise and private business exchange equipment. The Wireless segment provides wireless telecommunications services, including local and long distance services, and sells wireless equipment. The Directory segment includes advertising, yellow pages, white pages and electronic publishing. The Other segment includes SBC's international investments and other domestic operating subsidiaries.

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SBC evaluates performance of these segments based on income before income taxes, adjusted for normalizing items (see Note 9 of Notes to Consolidated Financial Statements). Income before income taxes includes operating income, interest expense, equity in net income of affiliates and other income (expense) - net. Operating income includes operating revenues, operations and support and depreciation and amortization expense. There were no SBC pre-merger normalizing items for the quarter and first nine months ended September 30, 1999. Normalizing items for the third quarter and first nine months of 1998 included \$358 (\$219 after tax) of gains on the sales of certain non-core businesses, principally the required disposition of MTN. The effect of normalizing adjustments was to increase income before income taxes for the third quarter of 1998 in Other by \$268 and Corporate, adjustments and eliminations by \$90. Components of income before income taxes by segment for the third quarter and first nine months of 1999 and 1998 are as follows:

	Third Quarter			Nine-Month Period		
	1999	1998	Percent Change	1999	1998	Percent Change
Wireline	\$ 1,228	\$ 1,211	1.4%	\$ 3,826	\$ 3,501	9.3%
Wireless	274	149	83.9	639	392	63.0
Directory	267	212	25.9	693	625	10.9
Other	75	30	-	311	226	37.6
Corporate, adjustments & eliminations	161	41	-	114	23	-
Total Income Before Income Taxes	\$ 2,005	\$ 1,643	22.0%	\$ 5,583	\$ 4,767	17.1%

Changes in income before income taxes in the Wireline, Wireless and Directory segments primarily reflect increases in operating income discussed below. Changes in income before income taxes for the operations included in the Other segment result primarily from the changes in equity in net income of affiliates and other income (expense) - net discussed below; changes in this line also impacted the Wireline segment.

Operating Income Components of operating income by segment for the third quarter and first nine months of 1999 and 1998 are as follows:

	Third Quarter			Nine-Month Period		
	1999	1998	Percent Change	1999	1998	Percent Change
Wireline	\$ 1,417	\$ 1,427	(0.7)%	\$ 4,399	\$ 4,153	5.9%
Wireless	367	244	50.4	876	642	36.4
Directory	268	212	26.4	699	628	11.3
Other	(7)	(6)	16.7	(29)	(18)	61.1
Corporate, adjustments & eliminations	62	26	-	102	90	-
Total Operating Income	\$ 2,107	\$ 1,903	10.7%	\$ 6,047	\$ 5,495	10.0%

Components of segment operating revenues and expenses and discussion of the segment results for the third quarter and first nine months of 1999 and 1998 follow.

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Operating Revenues SBC's operating revenues increased \$549, or 7.6%, in the third quarter of 1999 and \$1,376, or 6.5%, for the first nine months of 1999. Components of operating revenues by segment for the third quarter and first nine months of 1999 and 1998 are as follows:

	Third Quarter			Nine-Month Period		
	1999	1998	Percent Change	1999	1998	Percent Change
Wireline	\$ 5,801	\$ 5,668	2.3%	\$ 17,233	\$ 16,561	4.1%
Wireless	1,416	1,072	32.1	3,741	3,065	22.1
Directory	550	474	16.0	1,561	1,469	6.3
Other	46	24	91.7	91	63	44.4
Corporate, adjustments & eliminations	(48)	(22)	-	(149)	(57)	-
Total Operating Revenues	\$ 7,765	\$ 7,216	7.6%	\$ 22,477	\$ 21,101	6.5%

Wireline

Wireline operating revenues increased \$133, or 2.3%, in the third quarter of 1999 and \$672, or 4.1%, for the first nine months of 1999. Components of Wireline operating revenues for the third quarter and first nine months of 1999 and 1998 are as follows:

	Third Quarter			Nine-Month Period		
	1999	1998	Percent Change	1999	1998	Percent Change
Local service	\$ 2,953	\$ 2,829	4.4%	\$ 8,711	\$ 8,337	4.5%
Network access:						
Interstate	1,253	1,140	9.9	3,740	3,439	8.8
Intrastate	463	482	(3.9)	1,386	1,430	(3.1)
Long distance service	523	608	(14.0)	1,634	1,789	(8.7)
Other	609	609	-	1,762	1,566	12.5
Total Wireline	\$ 5,801	\$ 5,668	2.3%	\$ 17,233	\$ 16,561	4.1%

Local service revenues increased \$124, or 4.4%, in the third quarter and \$374, or 4.5%, in the first nine months of 1999 due primarily to increases in demand which totaled approximately \$127 for the third quarter and \$450 for the first nine months of 1999, including increases in access lines, vertical services and data-related services revenues. The number of access lines increased by 3.2% since September 30, 1998. Approximately 36% of access line growth was due to sales of additional access lines to existing residential customers. Approximately 47% of the access line growth was in California and 27% was in Texas. Access lines in Texas and California account for approximately 75% of SBC's access lines. Vertical services revenues, which include custom calling services, such as Caller ID, Call Waiting, voice mail and other enhanced services, increased by approximately 15% and totaled approximately \$1.6 billion for the first nine months of 1999.

Local service revenues also increased as a result of regulatory actions that decreased one or more other types of operating revenues. In 1999, the introduction of extended area service plans, the California High Cost Fund (CHCFB) and the Texas Universal Service Fund (TUSF) collectively

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increased local service revenues by approximately \$75 for the third quarter and \$133 for the first nine months. Also, long distance revenues decreased by approximately \$29 for the third quarter and \$88 for the first nine months and intrastate network access revenues decreased by approximately \$22 for the third quarter and \$48 for the first nine months. The net effect on Wireline operating revenues was an increase of approximately \$24 for the third quarter and a reduction of approximately \$3 for the first nine months of 1999. The state public utility commissions (PUCs) have stated that the CHCFB and the TUSF, implemented in September 1999, are intended to directly subsidize the provision of service to high cost areas and allow Pacific Bell (PacBell) and Southwestern Bell Telephone Company (SWBell) to set competitive rates for other services. The increases in local services revenues were partially offset by decreases due to rate reductions under PUC price cap orders of approximately \$29 for the third quarter and \$88 for the first nine months of 1999 and a decline in the public telephone business totaling nearly \$36 for the third quarter and approximately \$102 for the first nine months of 1999.

Network access Interstate network access revenues increased \$113, or 9.9%, in the third quarter and \$301, or 8.8%, in the first nine months of 1999 due largely to increases in special access, demand for access services by interexchange carriers and growth in revenues from end-user charges attributable to an increasing access line base, which collectively resulted in an increase of approximately \$138 for the third quarter and \$386 for the first nine months of 1999. In addition, customer number portability cost recovery, net of a Federal Communications Commission (FCC) rate decrease, contributed approximately \$31 for the third quarter and \$80 for the first nine months of 1999. Partially offsetting these increases were the effects of rate reductions related to the FCC's productivity factor adjustment, access reform and other changes totaling approximately \$55 for the third quarter and \$171 for the first nine months of 1999.

Intrastate network access revenues decreased \$19, or 3.9%, in the third quarter and \$44, or 3.1%, in the first nine months of 1999. Increases in demand totaled approximately \$39 for the third quarter and \$92 for the first nine months of 1999, including usage by alternative intraLATA toll carriers. These increases were offset by state regulatory rate reductions totaling approximately \$26 for the third quarter and \$68 for the first nine months of 1999 and the effects of the CHCFB and the TUSF described above in local service totaling approximately \$22 for the third quarter and \$48 for the first nine months of 1999.

Long distance service revenues decreased \$85, or 14.0%, in the third quarter and \$155, or 8.7%, in the first nine months of 1999. Long distance service revenues decreased due to the effects of regulatory shifts of approximately \$29 in the third quarter and \$88 for the first nine months of 1999, discussed above in local service, related to CHCFB, the TUSF and the introduction of extended area service. Also contributing to the decrease were price competition from alternative intraLATA toll carriers and competition from the introduction of intraLATA dialing parity of approximately \$44 in the third quarter and \$50 in the first nine months of 1999 and regulatory rate orders of approximately \$6 in the third quarter and \$38 in the first nine months of 1999. Partially offsetting these decreases were increased revenues related to the net effect of local exchange carrier billing settlements of approximately \$4 in the third quarter and \$23 in the first nine months of 1999 and increased customer migration to SNET All Distance totaling approximately \$8 in the third quarter and \$19 in the first nine months of 1999.

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Other operating revenues increased by \$196, or 12.5%, in the first nine months of 1999 due to increased equipment sales, primarily consumer equipment, of approximately \$4 in the third quarter and \$75 in the first nine months of 1999, increased sales from other nonregulated products and services of approximately \$25 in the third quarter and \$91 in the first nine months of 1999, revenues from new business initiatives, primarily Internet services, of approximately \$11 in the third quarter and \$50 for the nine months of 1999 and the deregulation of 911 revenues shifted to other revenues from local service of approximately \$10 in the third quarter and \$33 in the first nine months of 1999. These increases were partially offset by the transfer of directory operations at Nevada Bell to the Directory segment in the first quarter of 1999 totaling \$30 in the third quarter and \$68 in the first nine months.

Wireless

Wireless operating revenues increased \$344, or 32.1%, in the third quarter of 1999 and \$676, or 22.1%, for the first nine months of 1999. Components of Wireless operating revenues for the third quarter and first nine months of 1999 and 1998 are as follows:

	Third Quarter			Nine-Month Period		
	1999	1998	Percent Change	1999	1998	Percent Change
Subscriber	\$ 1,281	\$ 974	31.5%	\$ 3,373	\$ 2,797	20.6%
Other	135	98	37.8	368	268	37.3
Total Wireless	\$ 1,416	\$ 1,072	32.1%	\$ 3,741	\$ 3,065	22.1%

Subscriber revenues consist of local service and wireless long distance. Wireless subscriber revenues increased \$307, or 31.5%, in the third quarter and \$576, or 20.6%, for the first nine months of 1999 due primarily to growth in the number of customers of 31.6%, including approximately 862,000 customers related to Comcast Cellular Corporation (Comcast) acquired in July 1999. These increases were partially offset by declines in average revenue per customer. At September 30, 1999, SBC had 8,510,000 domestic wireless customers.

Other wireless revenues relate primarily to equipment sales and increased \$37, or 37.8%, in the third quarter and \$100, or 37.3%, for the first nine months of 1999. The increase was primarily attributable to growth in the number of Personal Communication Services customers in California.

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Directory

Directory operating revenues increased \$76, or 16.0%, in the third quarter and \$92, or 6.3%, for the first nine months of 1999. Directory operating revenues for the third quarter and first nine months of 1999 and 1998 are as follows:

	Third Quarter			Nine-Month Period		
	1999	1998	Percent Change	1999	1998	Percent Change
Total Directory	\$ 550	\$ 474	16.0%	\$ 1,561	\$ 1,469	6.3%

Directory operating revenues increased in the third quarter of 1999 due mainly to a change in the schedule of published directories. Also, directory operating revenues increased in the first nine months of 1999 due primarily to increased demand, including benefits from sales initiatives developed in the merger integration process.

Operating Expenses SBC's operating expenses increased \$345, or 6.5%, in the third quarter and \$824, or 5.3%, for the first nine months of 1999. Components of operating expenses by segment for the third quarter and first nine months of 1999 and 1998 are as follows:

	Third Quarter			Nine-Month Period		
	1999	1998	Percent Change	1999	1998	Percent Change
Wireline	\$ 4,384	\$ 4,241	3.4%	\$ 12,834	\$ 12,408	3.4%
Wireless	1,049	828	26.7	2,865	2,423	18.2
Directory	282	262	7.6	862	841	2.5
Other	53	30	76.7	120	81	48.1
Corporate, adjustments & eliminations	(110)	(48)	-	(251)	(147)	-
Total Operating Expenses	\$ 5,658	\$ 5,313	6.5%	\$ 16,430	\$ 15,606	5.3%

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Operations and support SBC's operations and support increased \$208, or 5.1%, in the third quarter and \$603, or 5.1%, for the first nine months of 1999. Components of operations and support expenses by segment for the third quarter and first nine months of 1999 and 1998 are as follows:

	Third Quarter			Nine-Month Period		
	1999	1998	Percent Change	1999	1998	Percent Change
Wireline	\$ 3,250	\$ 3,163	2.8%	\$ 9,520	\$ 9,246	3.0%
Wireless	828	682	21.4	2,338	1,992	17.4
Directory	274	255	7.5	839	817	2.7
Other	46	30	53.3	113	81	39.5
Corporate, adjustments & eliminations	(118)	(58)	-	(278)	(207)	-
Total operations and support	\$ 4,280	\$ 4,072	5.1%	\$ 12,532	\$ 11,929	5.1%

Wireline operations and support increased \$87, or 2.8%, in the third quarter and \$274, or 3.0%, in the first nine months of 1999. The increase includes costs of approximately \$109 in the third quarter and \$254 in the first nine months of 1999 associated with new business initiatives and other products, primarily Asymmetrical Digital Subscriber Lines (ADSL), Internet, long distance and voice mail. Additionally, operations and support increased approximately \$63 in the third quarter and \$196 in the first nine months of 1999 as a result of increased wages, salaries and materials. Operations and support also increased by \$74 in the third quarter and \$102 in the first nine months related to costs associated with software right-to-use fees, including digital network deployment initiatives, and by approximately \$27 in the third quarter and \$103 in first nine months of 1999 as a result of costs associated with reciprocal compensation for the termination of Internet traffic.

Operations and support cost increases were partially offset by approximately \$44 in the third quarter related to declining merger initiative costs at SWBell and PacBell. Also partially offsetting these increased costs were reductions of approximately \$50 in the third quarter and \$143 in the first nine months of 1999 primarily due to lower contract labor costs, costs associated with customer number portability and benefit costs. These reductions primarily resulted from the realization of merger initiative benefits, partially offset by normal growth in operations and support expenses. Also partially offsetting the increases in operations and support was the change in accounting for software costs (see Note 10 of Notes to Consolidated Financial Statements) which resulted in approximately \$73 in the third quarter and \$170 in the first nine months of 1999 being capitalized rather than expensed.

Wireless expenses increased \$146, or 21.4%, in the third quarter and \$346, or 17.4%, for the first nine months of 1999 due primarily to growth in the number of customers, including the acquisition of Comcast discussed in subscriber revenues above.

Directory expenses increased \$19, or 7.5%, in the third quarter and \$22, or 2.7%, for the first nine months of 1999. These increases are primarily due to a net change in directories published as discussed in directory operating revenues above and increased employee-related costs associated with increased demand. The increases were partially offset by decreased product-related costs due to benefits from merger initiatives.

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Depreciation and amortization SBC's depreciation and amortization expense increased \$137, or 11.0%, in the third quarter and \$221, or 6.0%, for the first nine months of 1999. Components of depreciation and amortization expense by segment for the third quarter and first nine months of 1999 and 1998 are as follows:

	Third Quarter			Nine-Month Period		
	1999	1998	Percent Change	1999	1998	Percent Change
Wireline	\$ 1,134	\$ 1,078	5.2%	\$ 3,314	\$ 3,162	4.8%
Wireless	221	146	51.4	527	431	22.3
Directory	8	7	14.3	23	24	(4.2)
Other	7	-	-	7	-	-
Corporate, adjustments & eliminations	8	10	-	27	60	-
Total depreciation and amortization	\$ 1,378	\$ 1,241	11.0%	\$ 3,898	\$ 3,677	6.0%

Depreciation and amortization expense is primarily in the Wireline and Wireless segments. Depreciation and amortization increased in the Wireline segment by approximately \$56 in the third quarter and \$152 in the first nine months of 1999 due primarily to overall higher plant levels. Increases of approximately \$75 in the third quarter and \$96 in the first nine months of 1999 in the Wireless segment include \$57 from the acquisition of Comcast in July 1999. The remainder of the Wireless increases resulted from overall higher plant levels. The increases were partially offset by reduced depreciation expense of \$11 in the third quarter and \$31 in the first nine months of 1999 primarily related to retirements of analog switching equipment and rate variances. In addition, the third quarter 1998 sale of SBC Media Ventures reduced depreciation expense by approximately \$28 in the first nine months of 1999.

Interest expense decreased \$39, or 16.0%, for the third quarter and \$119, or 15.7%, for the first nine months of 1999. This decrease was due primarily to reductions in interest expense resulting from lower average debt levels due to 1998 debt retirements.

Equity in net income of affiliates increased \$42, or 76.4%, in the third quarter of 1999 due primarily to increases from investments in Teléfonos de Mexico, S.A. de C.V. (Telmex), Israeli telecommunications and wireless companies in Switzerland and France totaling approximately \$37. These increases were partially offset by reduced equity in net income from Telkom SA Limited (Telkom) in South Africa. Equity in net income of affiliates increased \$70, or 38.7%, in the first nine months of 1999 due primarily to increased equity in net income of approximately \$89 from investments in Telmex, Israel and France, and SBC's domestic wireless partnerships. These increases were partially offset by a lower contribution from SBC's investment in Telkom, resulting from the impact of the decline in the value of the rand and higher maintenance expenses.

Other income (expense) - net for the third quarter and first nine months of 1998 includes \$358 for gains on sales of certain non-core businesses, principally the required disposition of MTN. Excluding these gains, other income (expense) - net was income of \$6 for the third quarter and net expense of \$74 for the first nine months of 1999 and net expense of \$71 for the third quarter and \$149 for the first nine months of 1998. The first nine months of 1999 include a gain from the sale of a portion of one of SBC's international investments, in Amdocs Limited (Amdocs), of approximately \$92 and gains of \$52 representing market

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adjustments on Amdocs shares used for contributions to the SBC Foundation and deferred compensation. Results for the first nine months of 1999 also include a gain of approximately \$59 from the sale of SBC's investment in an international investment and a gain of approximately \$24 from the sale of certain discontinued plant related to Advanced Communications Network. The third quarter of 1999 includes income of \$59 related to depreciation in the market value of Telmex L shares underlying certain SBC debt redeemable either in cash or Telmex L shares and gains recognized from the sale of certain Telmex L shares.

The first nine months of 1999 include increased expenses related to higher appreciation in the market value of Telmex L shares underlying certain SBC debt redeemable either in cash or Telmex L shares than in the comparable periods of 1998, net of gains from the sale of certain Telmex L shares of approximately \$153 for the first nine months of 1999. Also affecting comparisons in the first nine months of 1998 was receipt of a special dividend of approximately \$158 from Amdocs, and approximately \$133 of other expense related to the impairment of an international investment and investments in certain wireless technologies, primarily wireless video.

Income Taxes for the third quarter and first nine months of 1998 include amounts related to the sale of certain non-core businesses discussed in other income. Excluding these items, income taxes increased \$127, or 21.2%, in the third quarter and \$280, or 16.1%, in the first nine months of 1999, primarily due to higher income before income taxes.

COMPETITIVE AND REGULATORY ENVIRONMENT

Ameritech Merger On October 8, 1999, SBC and Ameritech Corporation (Ameritech) completed the merger of an SBC subsidiary with Ameritech. See Note 5 of Notes to Consolidated Financial Statements for a discussion of the merger with Ameritech.

The FCC issued an order approving the transaction, subject to certain conditions, including fostering out-of-region competition, promoting advanced services, opening local markets to competition and improving residential services. These FCC conditions require specific performance and reporting provisions and contain enforcement provisions that could potentially trigger more than \$2 billion in payments if certain goals are not met. The following is a brief summary of the major conditions.

- **Out-of-Region Competition** - Within 30 months from the merger closing, SBC must enter 30 new markets as a facilities-based competitive provider of local services to business and residential customers. Failure to achieve entrance into 30 markets within the 30 month timeframe could result in a fine of \$40 for each market missed.
- **Promoting Advanced Services** - As a condition of the merger, SBC established separate subsidiaries to provide advanced services such as ADSL. These subsidiaries are required to use the same processes as competitors and pay an equivalent price for facilities and services as well as locate at least 10% of their advanced service facilities in low-income areas. In addition, SBC will provide data competitive local exchange companies (CLECs) the economic equivalent of line sharing by providing them a second line at a 50% discount for the purposes of providing advanced services.
- **Opening Local Markets to Competition** - SBC will file performance measurement data reflecting 20 different categories for each of the 13 states in which it provides local services (13 in-region states) with the FCC and relevant state commissions on a monthly basis. These performance measurements

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COMPETITIVE AND REGULATORY ENVIRONMENT - Continued

address functions that may have a particularly direct effect on SBC's local competitors and their customers such as SBC's response to competitors' requests for information and interconnection. If these performance goals are not met, payments of up to \$1.1 billion over three years could be triggered.

SBC will develop and deploy, with CLEC input, uniform electronic Operator Support Services (OSS) throughout its 13 in-region state service area that support the pre-ordering, ordering, provisioning, maintenance, repair and billing of resold local services and unbundled network elements. The OSS will include uniform application-to-application interfaces, graphical user interfaces and change management processes that could trigger payments of up to \$20 if deployment targets are not met. SBC will restructure OSS charges to eliminate any flat rate up-front charge for the right to use SBC's standard interfaces for accessing OSS. In addition, SBC will provide free training and OSS expert teams for CLECs with annual revenues under \$300.

- Improving Residential Service - SBC will not charge residential customers minimum monthly long distance fees for at least three years after entering the long distance market. In addition, SBC will offer a low-income Lifeline universal service plan to low-income residential customers in each of its 13 in-region states.

The effects of these conditions on results of operations is still being evaluated, however SBC expects to incur approximately \$500 in additional costs in 2000 to comply with these conditions.

Unbundled Network Elements In January 1999, the United States Supreme Court ordered the FCC to review its rules, arising out of the Telecommunications Act of 1996, that required major local telephone carriers, such as SBC's subsidiaries, to lease to competitors, at a discount, parts of their phone networks, including the telephone lines that run to customers' homes, switching equipment that routes calls and directory and operator assistance. In November 1999, the FCC adopted an order providing that the major local telephone carriers must continue leasing certain parts of their phone network to competitors at a discount. This order provides revised rules that expand the definitions of certain unbundled network elements. The FCC did rule that directory and operator assistance no longer has to be leased at a discount. The order also limits discounted access to switches serving business customers under certain conditions. In addition, the FCC declined to expand its regulation to include mandatory leasing of high speed Internet and data equipment. SBC is currently evaluating the impact of this order. Although the effect of this order on SBC's results of operations and financial position cannot be determined at this time, it is expected to be unfavorable.

Pricing Flexibility In August 1999, the FCC adopted an order and a further notice of proposed rulemaking (FNPR) on interstate access charge reform issues. Under the order, Phase I flexibility will permit a local exchange company (LEC), such as SBC's Wireline subsidiaries, to offer volume and term discounts under contract for certain access services after the LEC has demonstrated that competitors have invested in facilities in the LEC's market areas. Phase II flexibility will permit a LEC to have special access and dedicated transport services removed from price caps entirely after the LEC demonstrates that a much greater level of competition exists. Although the effect of this order and FNPR on SBC's results of operations and financial position cannot be determined at this time, it is expected to be favorable.

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OTHER BUSINESS MATTERS

Cumulative Effect of Change in Accounting See Note 3 of Notes to Consolidated Financial Statements for a discussion of the change in directory accounting at SNET Information Services, Inc. in the first quarter of 1998.

New Accounting Standards In June 1998, the Financial Accounting Standards Board (FASB) issued Statement No. 133, "Accounting for Derivative Instruments and Hedging Activities" (FAS 133), which will require all derivatives to be recorded on the balance sheet at fair value and changes in the fair value of the derivatives to be recorded in net income or comprehensive income. In June 1999, the FASB issued Statement No. 137, "Accounting for Derivative Instruments and Hedging Activities-Deferral of the Effective Date of the FASB Statement No. 133" (FAS 137) that, among other items, defers the date that FAS 133 must be adopted to years beginning after June 15, 2000. Earlier adoption is permitted. SBC is currently evaluating the impact of the change in accounting required by FAS 133, as amended, but is not able to quantify the effect at this time.

See Note 10 of Notes to Consolidated Financial Statements for a discussion of the new accounting standard on software costs.

Acquisitions See Note 11 of Notes to Consolidated Financial Statements for a discussion of the acquisition of Comcast.

In May 1999, SBC and Telmex announced an agreement to acquire Cellular Communications of Puerto Rico, Inc. (Cellular Communications). In August 1999, SBC acquired Cellular Communications in a transaction valued at \$827, including assumption of approximately \$370 in debt. In October 1999, following approval by the FCC, Telmex acquired 50% of Cellular Communications from SBC. SBC now owns a direct 50% interest in Cellular Communications. The transaction was accounted for as a purchase, and therefore, results of operations have been included in the consolidated financial statements from the date of acquisition. Cellular Communications offers wireless services under the Cellular One brand name to approximately 375,000 subscribers in Puerto Rico and the U.S. Virgin Islands. The company also offers paging and long distance service in Puerto Rico and is planning to offer wireline phone service in San Juan as a CLEC.

In November 1999, SBC announced it has agreed to acquire Radiofone, Inc. (Radiofone) for approximately eight million shares of SBC common stock. The transaction will be accounted for as a purchase and is expected to be completed in the second quarter of 2000, pending regulatory approvals. Radiofone serves more than 200,000 wireless customers in Louisiana and Michigan, and approximately 300,000 paging customers in 11 states.

In October 1999, SBC acquired approximately 4% of Williams Communications Group, Inc., a subsidiary of Williams Cos., Inc. for an investment of approximately \$439.

SBC's Year 2000 Project SBC operates numerous date-sensitive computer applications and systems throughout its businesses. Since 1996, SBC has been addressing these applications and systems and has conducted thousands of tests and a thorough drill of its contingency plans. SBC believes its system and networks are ready for the Year 2000. SBC assigned nearly 400 employees and has spent \$214 through September 30, 1999 to upgrade its systems. SBC expects to spend a total of \$235 by year-end 1999. The scope of SBC's project included 340 million lines of software code, 1,200 central office switches, 7,000 company buildings, 124,000 personal computers and 15,000 vendor products.

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OTHER BUSINESS MATTERS - Continued

SBC's systems and network components have been put through a rigorous process that included several phases, inventory, assessment, remediation, testing and implementation, to ensure their readiness for the date change. In addition to these efforts, from November, 1999 to March, 2000, SBC will also implement freeze periods for our network and operational support systems. A freeze period for software code is being implemented between November 1, 1999 and March 1, 2000. A freeze period for network element hardware and software configurations is being implemented between December 13, 1999 until January 8, 2000. This means that during these timeframes the only changes authorized are for FCC and PUC mandates. These freeze periods are designed to reduce the possibility of year-end problems.

To further ensure that the Year 2000 is a non-event for its customers, SBC has strengthened its business continuity plans to prepare for potential outside situations that could affect services. These plans call for increasing staffing at SBC's network support centers and repair bureaus having additional fuel on hand to power SBC's backup generators and opening command centers throughout the company.

SBC has significant minority investments in large telecommunications carriers in several countries, the most significant of which are in Mexico, South Africa and France. Each of those carriers has plans in place and activities under way to address Year 2000 issues. Based on information reported to SBC, the estimated proportionate share of these companies' Year 2000 conversion costs that will flow through to our earnings is not expected to be material. There is no assurance that Year 2000 readiness preparations for some carriers, as well as the countries in which they operate, will be adequately completed by the end of the year. Therefore, we are unable to determine the full impact Year 2000 may have to those international interests.

LIQUIDITY AND CAPITAL RESOURCES

SBC had \$267 in cash and cash equivalents available at September 30, 1999. During the first nine months of 1999, as in 1998, SBC's primary source of funds continued to be cash provided by operating activities. SBC has agreements in place with several banks for lines of credit totaling \$1,460, all of which may be used to support commercial paper borrowings. SBC had no borrowings outstanding under these lines of credit at September 30, 1999. Commercial paper borrowings as of September 30, 1999 totaled \$1,993. Increases in commercial paper borrowings from prior periods resulted from the acquisitions of and repayments of long-term debt associated with Comcast and Cellular Communications.

SBC's investing activities are primarily related to construction and capital expenditures. During the first nine months of 1999, SBC invested \$4,741 for construction and capital expenditures, primarily in the Wireline and Wireless segments. Investing activities during the first nine months of 1999 also included asset dispositions of \$475, primarily related to foreign operations, and acquisitions of \$1,134, including acquisitions of Comcast and Cellular Communications. Capital expenditures for 1999 are estimated to be approximately \$6,400 to \$6,800.

SBC plans to spend approximately \$6 billion, including costs related to Ameritech, in additional fixed capital over the next three years to accelerate the deployment of broadband capabilities in its network (Project Pronto). This incremental spending is expected to be funded by cash from operations.

In February 1998, SBC retired \$630 of long-term debt, including \$175 at PacBell and \$425 at SWBell, and issued approximately \$200 in debentures at PacBell due February 2008 and approximately \$200 in debentures at SWBell due March 2048. In September 1998, SBC called \$175 of SWBell long-term debt for retirement. Cash paid for dividends in the first nine months of 1999 was \$1,417, or 5.0% higher than

SBC COMMUNICATIONS INC.

Item 2a. Management's Discussion and Analysis of Financial Condition and Results of Operations
Dollars in millions except per share amounts

LIQUIDITY AND CAPITAL RESOURCES - Continued

in the first nine months of 1998 due to an increase in dividends paid per share to \$0.73125 from \$0.70125.

In 1999, subsequent to the completion of the acquisitions of Comcast and Cellular Communications, SBC retired virtually all of Comcast's and Cellular Communications' long-term debt.

In September and November 1999, the Board of Directors approved the repurchase of up to a total of approximately 23 million shares of SBC's common stock. These shares will be used for the Radiofone acquisition and to offset dilution caused by stock option exercises or pursuant to other employee benefit plans. As of November 9, 1999, approximately 10.6 million shares have been repurchased.

Item 1b. Supplemental Pro Forma Financial Statements

SBC COMMUNICATIONS INC.

SUPPLEMENTAL PRO FORMA CONSOLIDATED STATEMENTS OF INCOME

Dollars in millions except per share amounts

(Unaudited)

	Three months ended September 30,		Nine months ended September 30,	
	1999	1998	1999	1998
Operating Revenues				
Landline local service	\$ 4,843	\$ 4,362	\$ 14,112	\$ 12,795
Wireless subscriber	1,706	1,408	4,564	4,056
Network access	2,535	2,382	7,596	7,164
Long distance service	860	949	2,658	2,773
Directory advertising	926	868	2,746	2,588
Other	1,664	1,637	4,916	4,666
Total operating revenues	12,534	11,606	36,592	34,042
Operating Expenses				
Operations and support	7,629	6,696	21,474	19,685
Depreciation and amortization	2,443	1,916	6,378	5,661
Total operating expenses	10,072	8,612	27,852	25,346
Operating Income	2,462	2,994	8,740	8,696
Other Income (Expense)				
Interest expense	(365)	(383)	(1,069)	(1,223)
Equity in net income of affiliates	220	134	574	441
Other income (expense) - net	(29)	292	(129)	1,721
Total other income (expense)	(174)	43	(624)	939
Income Before Income Taxes and Cumulative Effect of Accounting Change	2,288	3,037	8,116	9,635
Income Taxes	1,153	1,111	3,270	3,491
Income Before Cumulative Effect of Accounting Change	1,135	1,926	4,846	6,144
Cumulative Effect of Accounting Change, net of tax	-	-	207	15
Net Income	\$ 1,135	\$ 1,926	\$ 5,053	\$ 6,159
Earnings Per Common Share:				
Income Before Cumulative Effect of Accounting Change	\$ 0.33	\$ 0.57	\$ 1.42	\$ 1.80
Net Income	\$ 0.33	\$ 0.57	\$ 1.48	\$ 1.81
Earnings Per Common Share - Assuming Dilution:				
Income Before Cumulative Effect of Accounting Change	\$ 0.33	\$ 0.56	\$ 1.40	\$ 1.78
Net Income	\$ 0.33	\$ 0.56	\$ 1.46	\$ 1.79
Weighted Average Number of Common Shares Outstanding (in millions)	3,414	3,406	3,411	3,406
Dividends Declared Per Common Share	\$ 0.24375	\$ 0.23375	\$ 0.73125	\$ 0.70125

See Notes to Supplemental Pro Forma Consolidated Financial Statements.

SBC COMMUNICATIONS INC.**SUPPLEMENTAL PRO FORMA CONSOLIDATED BALANCE SHEETS**

Dollars in millions except per share amounts

(Unaudited)

	September 30, 1999	December 31, 1998
Assets		
Current Assets		
Cash and cash equivalents	\$ 532	\$ 599
Accounts receivable - net of allowances for uncollectibles of \$1,043 and \$810	8,903	9,783
Prepaid expenses	868	843
Deferred income taxes	922	685
Other current assets	752	787
Total current assets	11,977	12,697
Property, Plant and Equipment - at cost	115,375	109,778
Less: Accumulated depreciation and amortization	69,335	65,584
Property, Plant and Equipment - Net	46,040	44,194
Intangible Assets - Net of Accumulated Amortization of \$1,308 and \$1,111	7,197	5,161
Investments in Equity Affiliates	10,632	7,412
Other Assets	6,000	5,517
Total Assets	\$ 81,846	\$ 74,981
Liabilities and Shareowners' Equity		
Current Liabilities		
Debt maturing within one year	\$ 6,424	\$ 4,178
Accounts payable and accrued liabilities	10,292	10,642
Accrued taxes	2,509	2,611
Dividends payable	831	809
Total current liabilities	20,056	18,240
Long-Term Debt	17,418	17,170
Deferred Credits and Other Noncurrent Liabilities		
Deferred income taxes	4,933	2,861
Postemployment benefit obligation	9,265	9,193
Unamortized investment tax credits	410	474
Other noncurrent liabilities	3,456	3,269
Total deferred credits and other noncurrent liabilities	18,064	15,797
Corporation-obligated mandatorily redeemable preferred securities of subsidiary trusts*	1,000	1,000
Shareowners' Equity		
Common shares issued (\$1 par value)	3,433	3,434
Capital in excess of par value	12,430	12,439
Retained earnings	11,518	8,948
Guaranteed obligations of employee stock ownership plans	(128)	(261)
Deferred compensation - LESOP	(78)	(82)
Treasury shares (at cost)	(692)	(882)
Accumulated other comprehensive income (loss)	(1,175)	(822)
Total shareowners' equity	25,308	22,774
Total Liabilities and Shareowners' Equity	\$ 81,846	\$ 74,981

* The trusts contain \$1,030 in principal amount of the Subordinated Debentures of Pacific Telesis Group.
See Notes to Supplemental Pro Forma Consolidated Financial Statements.

SBC COMMUNICATIONS INC.**SUPPLEMENTAL PRO FORMA CONSOLIDATED STATEMENTS OF CASH FLOWS**

Dollars in millions, increase (decrease) in cash and cash equivalents

(Unaudited)

	Nine months ended September 30,	
	1999	1998
Operating Activities—		
Net income	\$ 5,053	\$ 6,159
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	6,378	5,661
Undistributed earnings from investments in equity affiliates	(343)	(108)
Provision for uncollectible accounts	824	629
Amortization of investment tax credits	(64)	(73)
Deferred income tax expense	662	482
Gain on sale of Telecom Corporation of New Zealand Limited shares	-	(1,543)
Cumulative effect of accounting change, net of tax	(207)	(15)
Other - net	(804)	(1,548)
Total adjustments	6,446	3,485
Net Cash Provided by Operating Activities	11,499	9,644
Investing Activities		
Construction and capital expenditures	(7,006)	(6,317)
Investments in affiliates	(32)	(48)
Purchase of short-term investments	(26)	(41)
Proceeds from short-term investments	6	324
Dispositions	1,448	2,316
Acquisitions	(4,792)	(3,182)
Other	2	6
Net Cash Used in Investing Activities	(10,400)	(6,942)
Financing Activities		
Net change in short-term borrowings with original maturities of three months or less	2,214	(1,758)
Issuance of other short-term borrowings	-	2
Repayment of other short-term borrowings	-	(8)
Issuance of long-term debt	738	2,880
Repayment of long-term debt	(2,140)	(1,341)
Issuance of common shares	307	395
Issuance of preferred shares in subsidiaries	3	322
Purchase of treasury shares	(21)	(497)
Issuance of treasury shares	197	176
Dividends paid	(2,464)	(2,339)
Net Cash Used in Financing Activities	(1,166)	(2,168)
Net increase (decrease) in cash and cash equivalents	(67)	534
Cash and cash equivalents beginning of period	599	649
Cash and Cash Equivalents End of Period	\$ 532	\$ 1,183
Cash paid during the nine months ended September 30 for:		
Interest	\$ 1,200	\$ 1,305
Income taxes, net of refunds	\$ 1,929	\$ 1,753

See Notes to Supplemental Pro Forma Consolidated Financial Statements.

SBC COMMUNICATIONS INC.

NOTES TO SUPPLEMENTAL PRO FORMA CONSOLIDATED FINANCIAL STATEMENTS **(UNAUDITED)**

Dollars in millions except per share amounts

1. **BASIS OF PRESENTATION** The supplemental pro forma consolidated financial statements have been prepared by SBC Communications Inc. (SBC) pursuant to the rules and regulations of the Securities and Exchange Commission (SEC) and, in the opinion of management, include all adjustments necessary to present fairly the results for the interim periods shown. The combined results include the effects of changes applied retroactively to conform accounting methodologies between SBC and Ameritech Corporation (Ameritech) for, among other items, pensions, postretirement benefits, sales commissions and merger transaction costs. Certain information and footnote disclosures, normally included in financial statements prepared in accordance with generally accepted accounting principles, have been condensed or omitted pursuant to such SEC rules and regulations. The results for the interim periods are not necessarily indicative of results for the full year. The supplemental pro forma consolidated financial statements contained herein are not necessarily indicative of the results of operations or financial position that would have occurred had the merger been consummated prior to September 30, 1999 and should be read in conjunction with the consolidated financial statements and notes thereto included in SBC's 1998 Annual Report to Shareowners and Ameritech's 1998 Annual Report to Shareowners.

SBC reclassified, among other items, payphone revenue to other from landline local service. The reclassifications were made to better reflect revenue in the appropriate segments. Also, SBC reclassified certain Ameritech revenues, expenses and income to reflect consistent treatment among the companies and segments.

2. **CONSOLIDATION** The supplemental pro forma consolidated financial statements include the accounts of SBC and its majority-owned subsidiaries. All significant intercompany transactions are eliminated in the consolidation process. Investments in partnerships, joint ventures and less than majority-owned subsidiaries are principally accounted for under the equity method. Earnings from foreign investments accounted for under the equity method are included for periods ended within three months of the date of SBC's Consolidated Statements of Income.
3. **CUMULATIVE EFFECT OF CHANGE IN DIRECTORY ACCOUNTING** Prior to January 1, 1999, Ameritech's directory publishing subsidiary recognized revenues and expenses related to publishing directories using the "amortization" method, under which revenues and expenses were recognized over the lives of the directories, generally one year. Effective January 1, 1999, the accounting was changed to the "issue basis" method of accounting, which recognizes the revenues and expenses at the time the related directory is published. The change in methodology was made because the issue basis method is generally followed in the publishing industry, including Southwestern Bell Yellow Pages, Inc. and Pacific Bell Directory, and better reflects the operating activity of the business.

The cumulative after-tax effect of applying the change in method to prior years was recognized as of January 1, 1999 as a one-time, non-cash gain applicable to continuing operations of \$207, or \$0.06 per share. The gain is net of deferred taxes of \$125. See Note 3 of Notes to Consolidated Financial Statements of Item 1a. Financial Statements for a discussion of SNET Information Services, Inc.'s change in method of accounting for directory in 1998.

SBC COMMUNICATIONS INC.

NOTES TO SUPPLEMENTAL PRO FORMA CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED) - Continued

Dollars in millions except per share amounts

4. **COMPREHENSIVE INCOME** The components of SBC's comprehensive income for the third quarter and nine months ended September 30, 1999 and 1998 include net income and adjustments to shareowners' equity for foreign currency translation adjustments and net unrealized gains on securities.

Following is SBC's comprehensive income:

	Three months ended September 30,		Nine months ended September 30,	
	1999	1998	1999	1998
Net income	\$ 1,135	\$ 1,926	\$ 5,053	\$ 6,159
Other comprehensive income, net of tax:				
Foreign currency translation adjustment	122	344	(366)	225
Reclassification adjustment to net income for cumulative translation adjustment on securities sold	-	-	-	56
Net unrealized gains on securities:				
Unrealized gains on available for sale securities	18	67	18	90
Less: reclassification adjustment for gains included in net income	-	(2)	(5)	(2)
Net unrealized gains on securities	18	65	13	88
Other comprehensive income (loss)	140	409	(353)	369
Total comprehensive income	\$ 1,275	\$ 2,335	\$ 4,700	\$ 6,528

5. **COMPLETION OF MERGERS** On October 8, 1999, SBC and Ameritech completed the merger of an SBC subsidiary with Ameritech, in a transaction in which each share of Ameritech common stock was exchanged for 1.316 shares of SBC common stock (equivalent to approximately 1,450 million shares). Ameritech became a wholly-owned subsidiary of SBC effective with the merger and the transaction has been accounted for as a pooling of interests and a tax-free reorganization. Financial statements for prior periods have been restated to include the accounts of Ameritech. Transaction costs related to the merger were \$77 (\$48 net of tax). Of this total \$25 (\$16 net of tax) is included in expenses in the first nine months of 1999 and \$52 (\$32 net of tax) in the first nine months of 1998 as merger costs were incurred from May 1998.

SBC COMMUNICATIONS INC.

**NOTES TO SUPPLEMENTAL PRO FORMA CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED) - Continued**

Dollars in millions except per share amounts

Operating revenues, income before extraordinary loss and cumulative effect of accounting change and net income of the separate companies on a pre-merger basis for the last three periods are presented below:

	Nine Months Ended September 30, Year Ended December 31, 1999 1998 1997		
Operating revenues:			
SBC	\$ 22,477	\$ 28,777	\$ 26,681
Ameritech	13,912	17,154	15,998
Adjustments	203	276	427
Combined	\$ 36,592	\$ 46,207	\$ 43,106
Income before extraordinary loss and cumulative effect of accounting change:			
SBC	\$ 3,569	\$ 4,068	\$ 1,674
Ameritech	1,438	3,606	2,296
Adjustments	(161)	61	117
Combined	\$ 4,846	\$ 7,735	\$ 4,087
Net income:			
SBC	\$ 3,569	\$ 4,023	\$ 1,674
Ameritech	1,645	3,606	2,296
Adjustments	(161)	61	117
Combined	\$ 5,053	\$ 7,690	\$ 4,087

Combined pro forma results include the effect of retroactively conforming accounting methodologies between SBC and Ameritech. Among other items, non-cash adjustments were made to conform accounting for pension and postretirement benefits between the companies and to immediately expense certain items routinely deferred and amortized by Ameritech, including sales commissions and leased customer security and paging equipment. The pension and postretirement adjustments include the effects of conforming the adoption date for postretirement accounting, methods of recognizing actuarial gains and synchronization of estimates related to the current year's benefit plans. The effects of all of these conforming changes decreased third quarter 1999 net income by approximately \$48 and increased third quarter 1998 net income by \$19.

Post-merger initiatives

In the third quarter of 1999, SBC recorded after tax charges of \$883 including charges to apply SBC's accounting estimates and valuations to similar items in Ameritech's financial statements. These charges include, among other items, recognition of impairment of long-lived assets, adjustments to the estimate of allowance for doubtful accounts and other items and estimates of other obligations. Following is a discussion of the most significant of these charges.

Impairments/asset valuation SBC reviewed the carrying values of the long-lived assets. This review included estimating remaining useful lives and cash flows and identifying assets to be abandoned. Where this review indicated impairment, discounted cash flows related to those assets were analyzed to determine the amount of the impairment. As a result of these reviews, SBC wrote off certain assets and recognized impairments to the value of other assets with a combined charge of \$454 (\$322 after tax). Included in these adjustments was an impairment of \$300 (\$224 after tax) related to Ameritech's

SBC COMMUNICATIONS INC.

NOTES TO SUPPLEMENTAL PRO FORMA CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED) - Continued

Dollars in millions except per share amounts

security business. The impairment adjustment, taken as a reduction in goodwill of \$300, reflects a reduction of the investment to fair market value. In connection with this adjustment, SBC shortened the estimated life of the remaining goodwill from 40 to 15 years. As a result of these adjustments, SBC estimates amortization expense will increase by \$10-\$15 annually for the remaining life of the goodwill. Other items consisted primarily of valuation adjustments on certain analog switching equipment at Ameritech and certain cost investments.

Estimates to allowance for doubtful accounts SBC performed a review of the allowance for doubtful accounts at the Ameritech subsidiaries and recognized a charge of \$212 (\$135 after tax). This charge resulted from synchronizing the estimation methods between SBC and Ameritech for the allowance for doubtful accounts.

Other items and estimates of other obligations SBC performed a review of Ameritech's accounting operations and applied consistent accounting techniques between SBC and Ameritech. As a result, SBC recognized charges related to the impact of several regulatory and legal rulings of \$136 (\$84 after tax), deferred taxes on international investments of \$289, net charges related to the routine deferral of certain costs and revenues by Ameritech of \$62 (\$40 after tax) and other miscellaneous items of \$17 (\$13 after tax).

As previously disclosed, strategic reviews and initiatives for the Pacific Telesis Group (PAC) and Southern New England Telecommunications (SNET) mergers were conducted following those mergers and certain charges were recognized upon completion of the reviews. See Note 6 of Notes to Consolidated Financial Statements in Item 1a for further discussion of these charges. Remaining accruals for anticipated cash expenditures related to the PAC and SNET merger were approximately \$136 at September 30, 1999 and \$323 at December 31, 1998 and approximately \$376 at September 30, 1999 related to the Ameritech merger.

In addition, SBC is currently conducting a review of best practices and strategic initiatives in the merged company. Review teams have been formed and are conducting comprehensive reviews of all phases of SBC's operations. The review teams may determine significant charges are required from those reviews. The teams are expected to conclude their reviews in the fourth quarter of 1999. Management anticipates the previous initiatives from the PAC and SNET mergers will be assimilated into the current review process, and amounts, if appropriate, will be adjusted.

In October 1999, SBC launched an initiative to provide advanced broadband services to many of its U.S. wireline customers (Project Pronto). As part of Project Pronto, SBC expects to make Digital Subscriber Line (DSL) available to approximately 80% of its customers over the next three years. With the launch of Project Pronto and the FCC's recent rulings on data services and unbundled network element pricing, SBC began reviewing and evaluating the carrying value of its network plant in its traditional wireline operations. SBC is assessing whether these changes, including the associated migration of certain customers to the new network envisioned by Project Pronto, affects the net book values of the existing network elements. SBC anticipates concluding this assessment in the fourth quarter of 1999 and accounting charges, if any, could be material.

SBC COMMUNICATIONS INC.

NOTES TO SUPPLEMENTAL PRO FORMA CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED) - Continued

Dollars in millions except per share amounts

6. **SUBSIDIARY FINANCIAL INFORMATION** The following tables present summarized financial information for PAC:

	September 30, 1999	December 31, 1998
Balance Sheets		
Current assets	\$ 3,280	\$ 3,037
Noncurrent assets	\$ 14,777	\$ 15,428
Current liabilities	\$ 4,829	\$ 5,278
Noncurrent liabilities	\$ 9,996	\$ 10,482
<hr/>		
Nine months ended September 30,	1999	1998
Income Statements		
Operating revenues	\$ 8,853	\$ 8,370
Operating income	\$ 2,309	\$ 2,029
Income before cumulative effect of accounting change	\$ 1,237	\$ 984
Net income	\$ 1,019	\$ 984

SBC has not provided separate financial statements and other disclosures for PAC as management has determined that such information is not material to the holders of the Trust Originated Preferred Securities, which have been guaranteed by SBC.

The following tables present summarized financial information for Southwestern Bell Telephone Company (SWBell):

	September 30, 1999	December 31, 1998
Balance Sheets		
Current assets	\$ 2,554	\$ 2,538
Noncurrent assets	\$ 13,795	\$ 13,241
Current liabilities	\$ 5,390	\$ 4,679
Noncurrent liabilities	\$ 8,047	\$ 7,838
<hr/>		
Nine months ended September 30,	1999	1998
Income Statements		
Operating revenues	\$ 8,375	\$ 8,044
Operating income	\$ 2,306	\$ 2,204
Income before cumulative effect of accounting change	\$ 1,281	\$ 1,207
Net income	\$ 1,009	\$ 1,207

SBC has not provided separate financial statements and other disclosures for SWBell as management has determined that such information is not material to the holders of SWBell's certain outstanding debt securities, which have been guaranteed by SBC.

SBC COMMUNICATIONS INC.

NOTES TO SUPPLEMENTAL PRO FORMA CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED) - Continued

Dollars in millions except per share amounts

The following tables present summarized financial information for Pacific Bell (PacBell):

	September 30, 1999	December 31, 1998
Balance Sheets		
Current assets	\$ 2,610	\$ 2,431
Noncurrent assets	\$ 13,171	\$ 12,662
Current liabilities	\$ 4,379	\$ 4,445
Noncurrent liabilities	\$ 8,475	\$ 7,388

Nine months ended September 30,	1999	1998
Income Statements		
Operating revenues	\$ 7,245	\$ 6,981
Operating income	\$ 1,895	\$ 1,788
Income before cumulative effect of accounting change	\$ 993	\$ 893
Net income	\$ (17)	\$ 893

SBC has not provided separate financial statements and other disclosures for PacBell as management has determined that such information is not material to the holders of PacBell's certain outstanding debt securities, which have been guaranteed by SBC.

SBC COMMUNICATIONS INC.

**NOTES TO SUPPLEMENTAL PRO FORMA CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED) - Continued**

Dollars in millions except per share amounts

7. **EARNINGS PER SHARE** A reconciliation of the numerators and denominators of basic earnings per share and diluted earnings per share for income before cumulative effect of accounting change for the third quarter and nine months ended September 30, 1999 and 1998 are shown in the table below.

	Three months ended September 30,		Nine months ended September 30,	
	1999	1998	1999	1998
Numerators				
Numerator for basic earnings per share:				
Income before cumulative effect of accounting change	\$ 1,135	\$ 1,926	\$ 4,846	\$ 6,144
Dilutive potential common shares:				
Other stock-based compensation	1	1	3	2
Numerator for diluted earnings per share	\$ 1,136	\$ 1,927	\$ 4,849	\$ 6,146
Denominators				
Denominator for basic earnings per share:				
Weighted average number of common shares outstanding (000)	3,413,896	3,405,956	3,410,929	3,405,712
Dilutive potential common shares (000):				
Stock options	42,299	35,551	43,344	36,437
Other stock-based compensation	6,750	5,651	6,329	5,488
Denominator for diluted earnings per share	3,462,945	3,447,158	3,460,602	3,447,637
Basic earnings per share:				
Income before cumulative effect of accounting change	\$ 0.33	\$ 0.57	\$ 1.42	\$ 1.80
Cumulative effect of accounting change	-	-	0.06	0.01
Net income	\$ 0.33	\$ 0.57	\$ 1.48	\$ 1.81
Diluted earnings per share:				
Income before cumulative effect of accounting change	\$ 0.33	\$ 0.56	\$ 1.40	\$ 1.78
Cumulative effect of accounting change	-	-	0.06	0.01
Net income	\$ 0.33	\$ 0.56	\$ 1.46	\$ 1.79

8. **SEGMENT INFORMATION** To better reflect the broadened scope of its operations, SBC has adjusted its segment reporting structure announced at the beginning of 1999. SBC now has four reportable segments: Wireline, Wireless, Information and Entertainment, and International. The Information and Entertainment segment expands on what was previously the Directory segment, and includes all directory operations of the combined company plus the Ameritech electronic security and cable television operations. All international investment operations have been removed from the Other segment and are shown separately in the International segment. The miscellaneous items that formerly were included in the Other segment have been moved to Corporate, Adjustments, and Eliminations.

The Wireline segment provides landline telecommunications services, including local, network access and long distance services, messaging and Internet services and sells customer premise and private business exchange equipment. The Wireless segment provides wireless telecommunications services, including local and long distance services, and sells wireless equipment. The Information and Entertainment segment includes advertising, yellow pages, white pages, electronic publishing, electronic security services, and cable television services. The International segment includes all international investments.

SBC COMMUNICATIONS INC.

NOTES TO SUPPLEMENTAL PRO FORMA CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) - Continued

Dollars in millions except per share amounts

The segment results include the 1999 effects of conforming accounting methodologies between SBC and Ameritech. Among other items, non-cash adjustments were made to conform accounting for pension and postretirement benefits between the companies and to immediately expense certain items routinely deferred and amortized by Ameritech, including sales commissions and leased customer security and paging equipment. The pension and postretirement adjustments include the effects on conforming the adoption date for postretirement accounting, methods of recognizing actuarial gains and synchronization of estimates related to the current year's benefit plans. These conforming accounting changes for 1998 and prior were recorded as a cumulative effect of accounting changes at the segment. These cumulative effect of accounting changes were retroactively restated to the appropriate year in SBC's results. Segment results for periods after 1999 will also include these conforming entries and be comparable to 1999 results.

SBC evaluates performance of these segments based on income before income taxes, adjusted for normalizing (i.e. one-time) items. SBC's consolidated pro forma third quarter results in both 1999 and 1998 exclude normalizing items.

Normalized results in 1999 include adjustments for a third quarter after-tax charge of \$883 including, among other items, recognition of impairment of long-lived assets, adjustments to the estimate of allowance for doubtful accounts, estimation of deferred taxes on international investments and other items as discussed in Note 5 of Notes to Supplemental Pro Forma Consolidated Financial Statements, offset by \$47 from the incremental impacts of overlapping wireless properties required to be sold in October 1999. The nine months ended September 30, 1999 exclude \$114 from the incremental impacts of overlapping wireless properties required to be sold in October 1999, and \$27 related to reduction of a first quarter 1998 charge to cover the cost of consolidating security monitoring centers and company-owned retail stores.

Normalized results in 1998 exclude third quarter 1998 after-tax gains of \$219 from the sale of certain non-core businesses, principally the required disposition of SBC's investment in Mobile Telephone Networks, a cellular company in South Africa, and \$28 from the incremental impacts of overlapping wireless properties required to be sold in October 1999. The nine months ended September 30, 1998 excludes after-tax gains of \$1,012 for the sale of Telecom Corporation of New Zealand Limited shares, \$77 from the incremental impacts of overlapping wireless properties required to be sold in October 1999, and a \$64 after-tax charge to cover the cost of consolidating security monitoring centers and company-owned cellular retail stores.

The following tables present segment information for SBC.

For the three months ended September 30, 1999	Revenues from external customers	Intersegment revenues	Income before income taxes
Wireline	\$ 9,464	\$ 80	\$ 2,193
Wireless	1,860	1	319
Information and entertainment	1,055	16	352
International	47	2	149
Corporate, Adjustments & Eliminations	24	(99)	86
Normalizing adjustments	84	-	(811)
Total	\$ 12,534	\$ -	\$ 2,288

SBC COMMUNICATIONS INC.

**NOTES TO SUPPLEMENTAL PRO FORMA CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED) - Continued**

Dollars in millions except per share amounts

For the three months ended September 30, 1998	Revenues from external customers	Intersegment revenues	Income before income taxes
Wireline	\$ 8,918	\$ 68	\$ 1,928
Wireless	1,465	(1)	176
Information and entertainment	947	16	313
International	25	5	44
Corporate, Adjustments & Eliminations	26	(88)	164
Normalizing adjustments	225	-	412
Total	\$ 11,606	\$ -	\$ 3,037

At September 30, 1999 or for the nine months ended	Revenues from external customers	Intersegment revenues	Income before income taxes	Segment assets
Wireline	\$ 27,860	\$ 239	\$ 6,575	\$ 52,914
Wireless	4,923	1	722	11,741
Information and entertainment	3,060	72	940	3,638
International	129	9	500	14,445
Corporate, Adjustments & Eliminations	92	(321)	27	(892)
Normalizing adjustments	528	-	(648)	-
Total	\$ 36,592	\$ -	\$ 8,116	\$ 81,846

At September 30, 1998 or for the nine months ended	Revenues from external customers	Intersegment revenues	Income before income taxes	Segment assets
Wireline	\$ 26,119	\$ 232	\$ 5,834	\$ 50,636
Wireless	4,159	1	409	8,973
Information and entertainment	2,826	65	955	3,778
International	101	13	286	11,514
Corporate, Adjustments & Eliminations	167	(311)	214	4
Normalizing adjustments	670	-	1,937	-
Total	\$ 34,042	\$ -	\$ 9,635	\$ 74,905

9. **SOFTWARE COSTS** The American Institute of Certified Public Accountants issued a Statement of Position (SOP) that requires capitalization of certain computer software expenditures beginning in 1999. The SOP, which has been adopted prospectively as of January 1, 1999, requires the capitalization of certain costs incurred in connection with developing or obtaining internal use software. Prior to the adoption of the SOP, the costs of computer software purchased or developed for internal use were expensed as incurred. However, initial operating system software costs were, and continue to be, capitalized.

With comparable levels of software expenditures, the SOP would tend to increase net income in comparison with SBC's former method of accounting for software costs. However, the increases would be largest in the year of adoption with diminishing levels of increases compared with current accounting throughout the amortization period. Consequently, given otherwise comparable income levels excluding software, and otherwise comparable software expenditures, the effect of the SOP would be to increase income in the first year and decrease income in each subsequent year until the number of years affected by the SOP equals the amortization period. The effect of adopting the SOP was to increase net income by approximately \$98, or \$0.03 per share assuming dilution, for the third quarter of 1999, and by \$224, or \$0.06 per share assuming dilution, for the first nine months of 1999.

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NOTES TO SUPPLEMENTAL PRO FORMA CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED) - Continued

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- 10. WIRELESS ACQUISITION** On July 8, 1999, SBC completed the acquisition of Comcast Cellular Corporation (Comcast), the wireless subsidiary of Comcast Corporation, in a transaction valued at \$1.8 billion including assumption of \$1.4 billion in debt. The transaction has been accounted for under the purchase method of accounting. Results of operations are included in the consolidated financial statements from the date of the acquisition. With the acquisition, SBC added approximately 862,000 subscribers in Pennsylvania, Delaware, New Jersey and Illinois.

In July 1999, subsequent to the completion of the acquisition, SBC retired virtually all of Comcast's outstanding Senior Notes.

- 11. INVESTMENT IN BELL CANADA** On June 1, 1999, SBC acquired 20% of Bell Canada, a subsidiary of BCE Inc., a publicly traded Canadian communications company, for approximately \$3.4 billion.

- 12. SUBSEQUENT EVENTS** In October 1999, SBC completed the required disposition, as a condition of the merger, of 20 Midwestern cellular properties including the competing cellular licenses in several markets, including, but not limited to, Chicago, Illinois, and St. Louis, Missouri. The after-tax gain from this sale totals approximately one and one-quarter billion dollars and will be recognized in the fourth quarter of 1999.

In the fourth quarter of 1999 SBC will also recognize expenses of approximately \$200 to \$250 related to certain contractual and regulatory obligations triggered by the completion of the merger.

SBC COMMUNICATIONS INC.

Item 2b. Management's Discussion and Analysis of Financial Condition and Results of Operations

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SUPPLEMENTAL PRO FORMA RESULTS OF OPERATIONS

Overview Financial results for SBC Communications Inc. (SBC) for the third quarter and first nine months of 1999 and 1998 are summarized as follows:

	Third Quarter			Nine-Month Period		
	1999	1998	Percent Change	1999	1998	Percent Change
Operating revenues	\$ 12,534	\$ 11,606	8.0%	\$ 36,592	\$ 34,042	7.5%
Operating expenses	\$ 10,072	\$ 8,612	17.0%	\$ 27,852	\$ 25,346	9.9%
Operating income	\$ 2,462	\$ 2,994	(17.8)%	\$ 8,740	\$ 8,696	0.5%
Income before income taxes and cumulative effect of accounting change	\$ 2,288	\$ 3,037	(24.7)%	\$ 8,116	\$ 9,635	(15.8)%
Income before cumulative effect of accounting change	\$ 1,135	\$ 1,926	(41.1)%	\$ 4,846	\$ 6,144	(21.1)%
Cumulative effect of accounting change	-	-	-	\$ 207	\$ 15	-
Net income	\$ 1,135	\$ 1,926	(41.1)%	\$ 5,053	\$ 6,159	(18.0)%

In the first quarters of 1999 and 1998, SBC reflected a cumulative effect of accounting change related to accounting for directory revenues and expenses (see Note 3 of Notes to Consolidated Financial Statements and Note 3 of Notes to Supplemental Pro Forma Consolidated Financial Statements).

SBC reported net income for the third quarter of 1999 of \$1,135, or \$0.33 per share assuming dilution, and for the nine months ended of \$5,053, or \$1.46 per share assuming dilution, compared to \$1,926, or \$0.56 per share assuming dilution, in the third quarter of 1998 and \$6,159, or \$1.79 per share assuming dilution, for the first nine months of 1998.

The third quarter and the first nine months of 1999 and 1998 include several items that SBC normalizes for management purposes. For 1999, normalizing items included: (i) third quarter after-tax charges including, among other items, recognition of impairment of long-lived assets, adjustments to the estimate of allowance for doubtful accounts, estimation of deferred taxes on international investments and other items and estimates of other obligations of \$883 (ii) the after-tax incremental impacts of overlapping wireless properties required to be sold in October 1999 of \$47 for the third quarter and \$114 for the first nine months and (iii) a first quarter reduction of a first quarter 1998 charge to cover the costs of consolidating security monitoring centers and company owned cellular retail stores.

For 1998, normalizing items included: (i) third quarter after-tax gains of \$219 on sales of certain non-core businesses, principally the required disposition of Mobile Telephone Networks (MTN), a cellular company in South Africa, (ii) the after-tax incremental impacts of overlapping properties required to be sold in October 1999 of \$28 for the third quarter and \$77 for the first nine months, (iii) the second quarter 1998 after-tax gain on the sale of Telecom Corp of New Zealand Limited (TCNZ) shares of \$1,012 and (iv) the first quarter after-tax charge to cover the cost of consolidating security monitoring centers and company-owned cellular retail stores of \$64.

Excluding the 1999 and 1998 normalizing items, SBC's net income for the third quarter of 1999 was \$1,971 compared to \$1,679 for the third quarter of 1998, an increase of \$292, or 17.4%. SBC's net income for the first nine months of 1999 was \$5,795 compared to \$4,915 for the first nine months of 1998, an increase of \$880, or 17.9%.

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SUPPLEMENTAL PRO FORMA RESULTS OF OPERATIONS - Continued

The primary factors contributing to these increases were growth in demand for services and products in SBC's wireline telephone, cellular and Personal Communication Services (PCS) operations and a reduction in operating expenses due to merger related initiatives and benefits.

Segment Results SBC has four reportable segments: Wireline, Wireless, Information and Entertainment, and International. The Wireline segment provides landline telecommunications services, including local, network access and long distance services, messaging and Internet services and sells customer premise and private business exchange equipment. The Wireless segment provides wireless telecommunications services, including local and long distance services, and sells wireless equipment. The Information and Entertainment segment includes advertising, yellow pages, white pages, electronic publishing, electronic security services and cable television services. The International segment includes SBC's international investments. SBC evaluates performance of these segments based on income before income taxes, adjusted for normalizing items (see Note 8 of Notes to Supplemental Pro Forma Consolidated Financial Statements). Income before income taxes includes operating income, interest expense, equity in net income of affiliates and other income (expense) - net. Operating income includes operating revenues, operations and support and depreciation and amortization expense.

The segment results include the 1999 effects of conforming accounting methodologies between SBC and Ameritech Corporation (Ameritech). Among other items, non-cash adjustments were made to conform accounting for pension and postretirement benefits between the companies and to immediately expense certain items routinely deferred and amortized by Ameritech, including sales commissions and leased customer security and paging equipment. The pension and postretirement adjustments include the effects of conforming the adoption date for postretirement accounting, methods of recognizing actuarial gains and synchronization of estimates related to the current year's benefit plans. These conforming accounting changes for 1998 and prior were recorded as a cumulative effect of accounting changes at the segment. This cumulative effect of accounting changes was retroactively restated to the appropriate year in SBC's results. Segment results for periods after 1999 will also include these conforming entries and be comparable to 1999 results.

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SUPPLEMENTAL PRO FORMA RESULTS OF OPERATIONS - Continued

Normalizing items for the quarters and nine months ended September 30, 1999 and 1998 are described above. Components of income before income taxes by segment for the third quarters and first nine months of 1999 and 1998 are as follows:

	Third Quarter			Nine-Month Period		
	1999	1998	Percent Change	1999	1998	Percent Change
Wireline	\$ 2,193	\$ 1,928	13.7%	\$ 6,575	\$ 5,834	12.7%
Wireless	319	176	81.3	722	409	76.5
Information and entertainment	352	313	12.5	940	955	(1.6)
International	149	44	-	500	286	74.8
Corporate, adjustments & eliminations	86	164	-	27	214	-
Total Income Before Income Taxes	\$ 3,099	\$ 2,625	18.1%	\$ 8,764	\$ 7,698	13.8%

Changes in income before income taxes in the Wireline, Wireless and Information and Entertainment segments primarily reflect increases in operating income discussed below. Changes in income before income taxes for the operations included in the International segment result primarily from the changes in equity in net income of affiliates and other income (expense) - net discussed below; changes in this line also impacted the Wireline segment.

The normalizing items impacting the Wireline segment include the third quarter 1999 one-time adjustments to the estimate of allowance for doubtful accounts and other items and the first quarter 1998 charge to consolidate certain operations. The Wireless segment normalizing items include the third quarter 1999 one-time charge, adjustments to the estimate of allowance for doubtful accounts and other items, the 1999 and 1998 quarterly incremental impacts of the overlapping cellular properties, the first quarter 1998 charge to cover the costs of consolidating company-owned cellular retail stores and the first quarter 1999 reduction of this charge. The Information and Entertainment segment includes the third quarter 1999 one-time charges, including recognition of impairment of long-lived assets, adjustments to the estimate of allowance for doubtful accounts and other items, the first quarter 1998 charge to cover the costs of consolidating security monitoring centers and the first quarter 1999 reduction of this charge. The International segment's normalizing items include the third quarter 1998 gains on sales of certain non-core businesses, principally the required disposition of SBC's MTN investment, and the second quarter sale of TCNZ shares.

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SUPPLEMENTAL PRO FORMA RESULTS OF OPERATIONS - Continued

The following table provides a summary by segment of increase (decrease) on income before income taxes and cumulative effect accounting change for the normalizing items for the third quarter and first nine months of 1999 and 1998.

	Third Quarter		Nine-Month Period	
	1999	1998	1999	1998
Wireline	\$ (346)	\$ -	\$ (335)	\$ (20)
Wireless	76	55	224	67
Information and Entertainment	(498)	-	(493)	(11)
International	-	268	-	1,810
Corporate, adjustments & eliminations	(43)	89	(44)	91
Total Normalizing Impacts	\$ (811)	\$ 412	\$ (648)	\$ 1,937

Operating Income Components of operating income by segment for the third quarter and first nine months of 1999 and 1998 are as follows:

	Third Quarter			Nine-Month Period		
	1999	1998	Percent Change	1999	1998	Percent Change
Wireline	\$ 2,464	\$ 2,231	10.4%	\$ 7,385	\$ 6,748	9.4%
Wireless	428	278	54.0	996	687	45.0
Information and entertainment	363	321	13.1	969	979	(1.0)
International	(15)	(13)	15.4	(32)	(22)	45.5
Corporate, adjustments & eliminations	2	111	-	15	237	-
Total Operating Income	\$ 3,242	\$ 2,928	10.7%	\$ 9,333	\$ 8,629	8.2%

Components of segment operating revenues and expenses and discussion of the segment results for the third quarter and first nine months of 1999 and 1998 follow.

Operating Revenues SBC's operating revenues increased \$1,069, or 9.4%, in the third quarter of 1999 and \$2,692, or 8.1%, for the first nine months of 1999. Components of operating revenues by segment for the third quarter and first nine months of 1999 and 1998 are as follows:

	Third Quarter			Nine-Month Period		
	1999	1998	Percent Change	1999	1998	Percent Change
Wireline	\$ 9,544	\$ 8,986	6.2%	\$ 28,099	\$ 26,351	6.6%
Wireless	1,861	1,464	27.1	4,924	4,160	18.4
Information and entertainment	1,071	963	11.2	3,132	2,891	8.3
International	49	30	63.3	138	114	21.1
Corporate, adjustments & eliminations	(75)	(62)	-	(229)	(144)	-
Total Operating Revenues	\$ 12,450	\$ 11,381	9.4%	\$ 36,064	\$ 33,372	8.1%

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SUPPLEMENTAL PRO FORMA RESULTS OF OPERATIONS - Continued

Wireline

Wireline operating revenues increased \$558, or 6.2%, in the third quarter of 1999 and \$1,748, or 6.6%, for the first nine months of 1999. Components of Wireline operating revenues for the third quarter and first nine months of 1999 and 1998 are as follows:

	Third Quarter			Nine-Month Period		
	1999	1998	Percent Change	1999	1998	Percent Change
Local service	\$ 4,913	\$ 4,375	12.3%	\$ 14,204	\$ 12,775	11.2%
Network access:						
Interstate	1,887	1,718	9.8	5,646	5,195	8.7
Intrastate	684	676	1.2	2,029	2,048	(0.9)
Long distance service	864	952	(9.2)	2,669	2,778	(3.9)
Other	1,196	1,265	(5.5)	3,551	3,555	(0.1)
Total Wireline	\$ 9,544	\$ 8,986	6.2%	\$ 28,099	\$ 26,351	6.6%

Local service revenues increased \$538, or 12.3%, in the third quarter and \$1,429, or 11.2%, in the first nine months of 1999 due primarily to increases in demand which totaled approximately \$338 for the third quarter and \$1,053 for the first nine months of 1999, including increases in access lines, vertical services and data-related services revenues. The data-related services increase includes the acquisition of two network integration companies by Ameritech in 1998 and 1999. The number of access lines increased by 3.1% since September 30, 1998.

Approximately 38% of access line growth was due to sales of additional access lines to existing residential customers. Approximately 31% of the access line growth was in California, 19% was in Texas and 11% was in Illinois. Access lines in Illinois, Texas and California account for approximately 60% of SBC's access lines. Vertical services revenues, which include custom calling services, such as Caller ID, Call Waiting, voice mail and other enhanced services, increased by approximately 15% and totaled more than \$2.5 billion for the first nine months of 1999.

Local service revenues also increased as a result of regulatory actions that decreased one or more other types of operating revenues. In 1999, the introduction of extended area service plans, the introduction of the California High Cost Fund (CHCFB) and the September 1999 Texas Universal Service Fund (TUSF) rate rebalancing collectively increased local service revenues by approximately \$63 for the third quarter and \$134 for the first nine months and decreased long distance revenues by approximately \$29 for the third quarter and \$88 for the first nine months and intrastate network access revenues by approximately \$22 for the third quarter and \$48 for the first nine months. The net effect on Wireline operating revenues was an increase of approximately \$12 for the third quarter and a decrease of approximately \$2 for the first nine months of 1999. The state public utility commissions (PUCs) have stated that the CHCFB and the TUSF are intended to directly subsidize the provision of service to high cost areas and allow Pacific Bell and Southwestern Bell Telephone Company to set competitive rates for other services. The increases in local services revenues were partially offset by decreases due to rate reductions under various PUC price cap orders of approximately \$38 for the third quarter and \$114 for the first nine months of 1999.

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SUPPLEMENTAL PRO FORMA RESULTS OF OPERATIONS - Continued

Network access Interstate network access revenues increased \$169, or 9.8%, in the third quarter and \$451, or 8.7%, in the first nine months of 1999. Included in the results is a conforming item of \$28 in the third quarter and \$51 in the first nine months of 1999 related to costs routinely deferred by Ameritech (see discussion under Segment Results above for further information of the effect of these conforming items on segment results). Excluding this conforming item, interstate network access revenues increased \$197, or 11.5%, in the third quarter and \$502, or 9.7%, in the first nine months of 1999 due largely to increases in special access, demand for access services by interexchange carriers and growth in revenues from end-user charges attributable to an increasing access line base, which collectively resulted in an increase of approximately \$231 for the third quarter and \$608 for the first nine months of 1999. In addition, customer number portability cost recovery, net of a Federal Communications Commission (FCC) retroactive rate decrease in the second quarter of 1999, effective February 1999, contributed approximately \$49 for the third quarter and \$126 to the increase for the first nine months of 1999. Partially offsetting these increases were the effects of rate reductions related to the FCC's productivity factor adjustment, access reform and other charges totaling approximately \$82 for the third quarter and \$233 for the first nine months of 1999.

Intrastate network access revenues increased \$8, or 1.2%, in the third quarter and decreased \$19, or 0.9%, in the first nine months of 1999. Increases in demand at the telephone companies totaled approximately \$84 for the third quarter and \$196 for the first nine months of 1999, including usage by alternative intraLATA toll carriers. These increases were offset by state regulatory rate reductions and other charges totaling approximately \$60 for the third quarter and \$177 for the first nine months of 1999 and the effects of the CHCFB and the TUSF described above in local service totaling approximately \$22 for the third quarter and \$48 for the first nine months of 1999.

Long distance service revenues decreased \$88, or 9.2%, in the third quarter and \$109, or 3.9%, in the first nine months of 1999. Long distance service revenues decreased due to the effects of regulatory shifts of approximately \$29 in the third quarter and \$88 for the first nine months of 1999, discussed above in local service, related to the TUSF, CHCFB and the introduction of extended area service; and price competition from alternative intraLATA toll carriers of approximately \$84 in the third quarter and \$135 in the first nine months of 1999. Partially offsetting these decreases were increased demand at Ameritech's long distance unit, certified to provide long distance service outside SBC's region and increased demand for SNET All Distance totaling approximately \$38 in the third quarter and \$123 in the first nine months of 1999.

Other operating revenues decreased \$69, or 5.5%, in the third quarter and decreased \$4, or 0.1%, in the first nine months of 1999. Equipment sales, primarily consumer equipment, were flat in the third quarter of 1999 as compared to the same period of 1998 and increased approximately \$67 in the first nine months of 1999. Increased sales from other nonregulated products and services, including Internet and cable services, totaled approximately \$27 in the third quarter and \$87 in the first nine months of 1999. These increases were offset by a decline in the public telephone business totaling approximately \$38 for the third quarter and \$134 for the first nine months of 1999 and increases in other charges, including state regulatory orders, of approximately \$43 for the third quarter and \$15 for the first nine months of 1999.

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SUPPLEMENTAL PRO FORMA RESULTS OF OPERATIONS - Continued

Wireless

Wireless operating revenues increased \$397, or 27.1%, in the third quarter of 1999 and \$764, or 18.4%, for the first nine months of 1999. Components of Wireless operating revenues for the third quarter and first nine months of 1999 and 1998 are as follows:

	Third Quarter			Nine-Month Period		
	1999	1998	Percent Change	1999	1998	Percent Change
Subscriber	\$ 1,506	\$ 1,221	23.3%	\$ 4,013	\$ 3,508	14.4%
Other	355	243	46.1	911	652	39.7
Total Wireless	\$ 1,861	\$ 1,464	27.1%	\$ 4,924	\$ 4,160	18.4%

Subscriber revenues consist of local service, incollect roaming (revenues from SBC wireless customers roaming outside their home area) and wireless long distance. Wireless subscriber revenues increased \$285, or 23.3%, in the second quarter and \$505, or 14.4%, for the first nine months of 1999 due primarily to growth in the number of customers of 24.7%, including approximately 862,000 customers related to Comcast Cellular Corporation (Comcast) acquired in July 1999. Also contributing to the growth in customers were California PCS operations, which experienced 100% growth to a total of approximately 1.3 million customers at September 30, 1999. These increases were partially offset by declines in average revenue per customer. At September 30, 1999, SBC had 10,311,000 domestic wireless customers.

Other wireless revenues relate primarily to outcollect roaming (revenues from non-SBC wireless customers roaming on SBC's wireless network) and equipment sales and increased \$112, or 46.1%, in the third quarter and \$259, or 39.7% for the first nine months of 1999. The increase was primarily attributable to growth in outcollect roaming revenues, as well as equipment sales in the California PCS operations.

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SUPPLEMENTAL PRO FORMA RESULTS OF OPERATIONS - Continued

Information and Entertainment

Information and Entertainment operating revenues consist of directory and Ameritech's security and cable television operations. Information and Entertainment operating revenues increased \$108, or 11.2%, in the third quarter and increased \$241, or 8.3%, for the first nine months of 1999. Information and Entertainment operating revenues for the third quarter and first nine months of 1999 and 1998 are as follows:

	Third Quarter			Nine-Month Period		
	1999	1998	Percent Change	1999	1998	Percent Change
Total Information and Entertainment	\$ 1,071	\$ 963	11.2%	\$ 3,132	\$ 2,891	8.3%

Information and Entertainment operating revenues increased in the third quarter and first nine months of 1999 due primarily to increases in demand for directory services, including benefits from sales initiatives developed in the Pacific Telesis Group and Southern New England Telecommunications Corporation merger integration process. Directory revenues increased approximately \$93 in the third quarter and \$190 in the first nine months, including a change in the schedule of published directories. Ameritech's cable business contributed approximately \$39 to the increase in the first nine months of 1999 due primarily to growth in the number of customers.

Operating Expenses SBC's operating expenses increased \$755, or 8.9%, in the third quarter and \$1,988, or 8.0%, for the first nine months of 1999. Components of operating expenses by segment for the third quarter and first nine months of 1999 and 1998 are as follows:

	Third Quarter			Nine-Month Period		
	1999	1998	Percent Change	1999	1998	Percent Change
Wireline	\$ 7,080	\$ 6,755	4.8%	\$ 20,714	\$ 19,603	5.7%
Wireless	1,433	1,186	20.8	3,928	3,473	13.1
Information and entertainment	708	642	10.3	2,163	1,912	13.1
International	64	43	48.8	170	136	25.0
Corporate, adjustments & eliminations	(77)	(173)	-	(244)	(381)	-
Total Operating Expenses	\$ 9,208	\$ 8,453	8.9%	\$ 26,731	\$ 24,743	8.0%

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SUPPLEMENTAL PRO FORMA RESULTS OF OPERATIONS - Continued

Operations and support SBC's operations and support increased \$563, or 8.6%, in the third quarter and \$1,607, or 8.4%, for the first nine months of 1999. Components of operations and support expenses by segment for the third quarter and first nine months of 1999 and 1998 are as follows:

	Third Quarter			Nine-Month Period		
	1999	1998	Percent Change	1999	1998	Percent Change
Wireline	\$ 5,354	\$ 5,126	4.4%	\$ 15,662	\$ 14,816	5.7%
Wireless	1,178	1,010	16.6	3,303	2,952	11.9
Information and entertainment	659	589	11.9	2,022	1,766	14.5
International	53	38	39.5	150	122	23.0
Corporate, adjustments & eliminations	(119)	(201)	-	(372)	(498)	-
Total Operations and Support	\$ 7,125	\$ 6,562	8.6%	\$ 20,765	\$ 19,158	8.4%

Wireline operations and support increased \$228, or 4.4%, in the third quarter and \$846, or 5.7%, in the first nine months of 1999. Included in the first nine months of 1999 is \$85 related to costs associated with conforming accounting methodologies between SBC and Ameritech. The conforming items include non-cash adjustments made to conform accounting for pension and postretirement benefits between the companies and to immediately expense certain items routinely deferred and amortized by Ameritech, including sales commissions (see discussion under Segment Results above for further information of the effect of these conforming items on segment results).

Also the increase includes costs of approximately \$104 in the third quarter and \$238 in the first nine months of 1999 associated with business initiatives and other products, primarily Asymmetrical Digital Subscriber Lines (ADSL), Internet, and voice mail. Additionally, operations and support increased approximately \$53 in the third quarter and \$134 in the first nine months of 1999 as a result of increased wages and salaries, and by approximately \$170 in the third quarter and \$468 in the first nine months of 1999 primarily as a result of the acquisition of two network integration companies in 1998 and 1999. Operations and support also increased by \$63 in the third quarter and \$83 in the first nine months related to costs associated with software right-to-use fees including digital network deployment initiatives, and by approximately \$65 in the third quarter and \$226 in first nine months of 1999 as a result of costs associated with reciprocal compensation for the termination of Internet traffic.

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Operations and support cost increases were partially offset by approximately \$57 in the third quarter and by \$204 in the first nine months of 1999 primarily the result of lower contract labor costs and costs associated with customer number portability. These reductions primarily resulted from the realization of merger initiative benefits. Also partially offsetting the increases in operations and support was the change in accounting for software costs (see Note 9 of Notes to Supplemental Pro Forma Consolidated Financial Statements) which resulted in approximately \$112 in the third quarter and \$258 in the first nine months of 1999 being capitalized rather than expensed.

Wireless expenses increased \$168, or 16.6%, in the third quarter and \$351, or 11.9%, for the first nine months of 1999 due primarily to growth in the number of customers, including the acquisition of Comcast discussed in subscriber revenues above.

Information and entertainment expenses for the third quarter and first nine months of 1999 include \$38 and \$110 of conforming charges related to certain items previously deferred and amortized, primarily related to customer acquisition costs and leased customer security equipment, by Ameritech (see discussion under Segment Results above for further information on the effect of these conforming items on segment results). Directory expenses for the first nine months of 1999 also include \$65 related to a change in directory accounting at Ameritech. Excluding these charges, directory expenses increased \$32, or 5.4%, in the third quarter and \$81, or 4.6%, for the first nine months of 1999 due to growth in demand for products and services.

Depreciation and amortization SBC's depreciation and amortization expense increased \$192, or 10.2%, in the third quarter and \$381, or 6.8%, for the first nine months of 1999. Components of normalized depreciation and amortization expense by segment for the third quarter and first nine months of 1999 and 1998 are as follows:

	Third Quarter			Nine-Month Period		
	1999	1998	Percent Change	1999	1998	Percent Change
Wireline	\$ 1,726	\$ 1,629	6.0%	\$ 5,052	\$ 4,787	5.5%
Wireless	255	176	44.9	625	521	20.0
Information and entertainment	49	53	(7.5)	141	146	(3.4)
International	11	5	-	20	14	42.9
Corporate, adjustments & eliminations	42	28	-	128	117	-
Total depreciation and amortization	\$ 2,083	\$ 1,891	10.2%	\$ 5,966	\$ 5,585	6.8%

Depreciation and amortization increased due primarily to increased depreciation expense of approximately \$82 in the third quarter and \$239 in the first nine months of 1999 in the Wireline segment resulting from overall higher plant levels. Increases of approximately \$79 in the third quarter and \$104 in the first nine months of 1999 in the Wireless segment include \$57 from the acquisition of Comcast in July 1999. The remainder of the Wireless increases resulted from overall higher plant levels.

SBC COMMUNICATIONS INC.

Item 2b. Management's Discussion and Analysis of Financial Condition and Results of Operations Dollars in millions except per share amounts

SUPPLEMENTAL PRO FORMA RESULTS OF OPERATIONS - Continued

Interest expense decreased \$18, or 4.7%, for the third quarter and \$154, or 12.6%, for the first nine months of 1999. This decrease was due primarily to reductions in interest expense resulting from lower average debt levels due to debt retirements in 1998 and early 1999.

Equity in net income of affiliates increased \$86, or 64.2%, in the third quarter of 1999 due primarily to increases from investments in Teléfonos de Mexico, S.A. de C.V. (Telmex) and TeleDanmark, as well as wireless investments in Switzerland and France totaling approximately \$44. Results for the quarter also include the June 1999 investment in Bell Canada. These increases were partially offset by reduced equity in net income from Telkom SA Limited (Telkom) in South Africa. Equity in net income of affiliates increased \$133, or 30.2%, in the first nine months of 1999. Results in 1999 include the investment in Bell Canada, while 1998 included the investment in TCNZ. Telmex and TeleDanmark contributed over \$110 to the increase in equity in net income, while increases in Israel and France also contributed approximately \$35 to the increase during the first nine months of 1999. These increases were partially offset by a lower contribution from Telkom, resulting from the impact of the decline in the value of the rand and higher maintenance expenses.

Other income (expense) - net included charges of \$23 for the third quarter and first nine months of 1999 to write down several of Ameritech's cost investments utilizing the SBC method. The incremental impacts of the overlapping wireless properties sold in October 1999 also decreased other income (expense) - net by \$7 in the third quarter and \$21 in the first nine months of 1999, and by \$8 in the third quarter and \$17 in the first nine months of 1998. Additionally, the third quarter and first nine months of 1998 included \$358 for gains on sales of certain non-core businesses, principally the required disposition of MTN. The first nine months of 1998 also included a \$1.5 billion gain related to Ameritech's public sale of substantially all of its stake in TCNZ. Excluding these items, other income (expense) - net was income of \$1 for the third quarter and net expense of \$85 for the first nine months of 1999 and net expense of \$58 for the third quarter and \$163 for the first nine months of 1998.

The first nine months of 1999 include a gain from the sale of a portion of one of SBC's international investments, Amdocs Limited (Amdocs), of approximately \$92 and gains of \$52 representing market adjustments on Amdocs shares used for contributions to the SBC Foundation and deferred compensation. Results for the first nine months of 1999 also include a gain of approximately \$59 recognized from the sale of SBC's investment in an international investment and a gain of approximately \$24 recognized from the sale of certain discontinued plant related to Advanced Communications Network. The third quarter of 1999 includes income of \$59 related to depreciation in the market value of Telmex L shares underlying certain SBC debt redeemable either in cash or Telmex L shares and the sale of certain Telmex L shares.

The first nine months of 1999 include increased expenses related to higher appreciation in the market value of Telmex L shares underlying certain SBC debt redeemable either in cash or Telmex L shares than in the comparable periods of 1998, net of gains recognized from the sale of certain Telmex L shares, of approximately \$153. Also affecting comparisons in the first nine months of 1998 was receipt of a special dividend of approximately \$158 from Amdocs, and approximately \$133 of other expense related to the impairment of an international investment and investments in certain wireless technologies, primarily wireless video.

Income Taxes for the third quarter and first nine months of 1999 and 1998 reflect the tax effect of charges for one-time items discussed in Note 5 of Notes to Supplemental Pro Forma Consolidated Financial Statements. The net effective tax rate on these items was lower as a result of non-deductible

SBC COMMUNICATIONS INC.

Item 2b. Management's Discussion and Analysis of Financial Condition and Results of Operations Dollars in millions except per share amounts

SUPPLEMENTAL PRO FORMA RESULTS OF OPERATIONS - Continued

items included in the charges and valuation adjustments to certain deferred tax assets, which may not be utilized due to restrictions associated with the Ameritech merger. Excluding these items, income taxes increased \$182, or 19.2%, in the third quarter and \$378, or 13.5%, in the first nine months of 1999, primarily due to higher income before income taxes.

SUPPLEMENTAL PRO FORMA COMPETITIVE AND REGULATORY ENVIRONMENT

Reciprocal Compensation In June 1999, the United States Court of Appeals for the Seventh Circuit (7th Circuit) issued an opinion affirming an order of the Illinois Commerce Commission (ICC) directing Ameritech to pay reciprocal compensation on Internet traffic under existing interconnection agreements. The 7th Circuit only reviewed whether the ICC's determination that the parties intended that calls to Internet Service Providers would be subject to reciprocal compensation violated federal law. The 7th Circuit declined to review any contract issues and concluded that the ICC's determination did not violate federal law as it was expressly permitted under the February 1999 FCC ruling regarding reciprocal compensation. SBC has sought rehearing of the 7th Circuit Court decision.

Other appeals of reciprocal compensation decisions are currently pending before the United States Circuit Court of Appeals for the Sixth Circuit (6th Circuit) and United States District Courts in Indiana and Ohio. In August 1999, the Michigan District Court affirmed an order of the Michigan Public Service Commission (MPSC) directing Ameritech to pay reciprocal compensation under existing interconnection agreements. Relying upon the FCC's declaratory ruling, the Michigan District Court concluded that the FCC had left the issue of reciprocal compensation to be determined by state commissions and therefore deferred to the MPSC's decision. SBC has appealed that decision to the 6th Circuit. In July 1999, the United States District Court in Wisconsin dismissed an appeal without reaching the merits of the case. SBC appealed that dismissal to the 7th Circuit.

SBC has been recording expense and/or making payments for amounts sought by certain competitive local exchange carriers for the termination of Internet traffic to Internet Service Providers.

SUPPLEMENTAL PRO FORMA OTHER BUSINESS MATTERS

SBC's Year 2000 Project In addition to the Year 2000 activities conducted by SBC, discussed in Item 2a. Other Business Matters, prior to the merger, Ameritech was also addressing Year 2000 issues. Ameritech believes its systems and networks are ready for the Year 2000.

On a consolidated basis, SBC currently estimates that it will incur expenses of approximately \$465 through 2000 in connection with anticipated Year 2000 efforts, of which approximately \$418 had been incurred through September 30, 1999. The timing of expenses may vary and is not necessarily indicative of readiness efforts or progress to date. SBC anticipates that a portion of the Year 2000 expenses will not be incremental costs, but rather will represent the redeployment of existing IT resources. SBC also expects to incur certain capital improvement costs (totaling approximately \$22) to support this project. Such capital costs (approximately \$16 as of September 30, 1999) are being incurred sooner than originally planned but, for the most part, would have been required in the normal course of business.

SBC has significant minority investments in large telecommunications carriers in several countries, the most significant of which are in Canada, Denmark, Mexico and Belgium. Each of those carriers has plans in place and activities under way to address Year 2000 issues. Based on information reported to SBC, the estimated proportionate share of these companies' Year 2000 conversion costs that will flow through to our earnings is not expected to be material. There is no assurance that Year 2000 readiness

SBC COMMUNICATIONS INC.

Item 2b. Management's Discussion and Analysis of Financial Condition and Results of Operations
Dollars in millions except per share amounts

SUPPLEMENTAL PRO FORMA OTHER BUSINESS MATTERS - Continued

preparations for some carriers, as well as the countries in which they operate, will be adequately completed by the end of the year. Therefore, we are unable to determine the full impact Year 2000 may have to those international interests

SUPPLEMENTAL PRO FORMA LIQUIDITY AND CAPITAL RESOURCES

SBC had \$532 in cash and cash equivalents available at September 30, 1999. During the first nine months of 1999, as in 1998, SBC's primary source of funds continued to be cash provided by operating activities. SBC has agreements in place with several banks for lines of credit totaling \$4,759, all of which may be used to support commercial paper borrowings. SBC had no borrowings outstanding under these lines of credit at September 30, 1999. Commercial paper borrowings as of September 30, 1999 totaled \$5,618. Increases in commercial paper borrowings from prior periods resulted from the acquisitions of and repayments of long-term debt associated with Comcast, Cellular Communications of Puerto Rico Inc. (Cellular Communications) and Bell Canada.

SBC's investing activities are primarily related to construction and capital expenditures. During the first nine months of 1999, SBC invested \$7,006 for construction and capital expenditures, primarily in the Wireline and Wireless segments. Investing activities during the first nine months of 1999 included asset dispositions of \$1,448, primarily related to additional proceeds from the sale of TCNZ shares, and asset acquisitions of \$4,792 related to Bell Canada, Comcast and Cellular Communications. Investing activities during the first nine months of 1998 included asset dispositions of \$2,316, primarily related to the required disposition of MTN due to SBC's investment in Telkom and the second quarter 1999 sale of TCNZ. In January 1998, SBC invested approximately \$3,100 in Tele Danmark, the national communications provider in Denmark. Capital expenditures for 1999 are estimated to be approximately \$9,700 to \$10,200.

Financing activities during the first nine months of 1999 included new short-term borrowings and long-term debt proceeds to finance SBC's investment in Bell Canada and the acquisition of Comcast and Cellular Communications. In 1999, subsequent to the completion of the acquisitions of Comcast and Cellular Communications, SBC retired virtually all of Comcast's and Cellular Communications' long-term debt. Financing activities during the first nine months of 1998 included repayment of short-term borrowings of \$1,759 and the issuance of \$2,880 of long-term debt, primarily to finance the acquisition of Tele Danmark. Cash paid for dividends in the first nine months of 1999 was \$2,464, or 5.3% higher than in the first nine months of 1998, due to an increase in dividends paid per share.

SBC COMMUNICATIONS INC.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Dollars in millions except per share amounts

SBC is exposed to market risks primarily from changes in interest rates, foreign currency exchange rates, and certain equity prices. In managing exposure to these fluctuations, SBC may engage in various hedging transactions that have been authorized according to documented policies and procedures. SBC does not use derivatives for trading purposes, or to generate income or to engage in speculative activity. (For further discussions on SBC's market risks see the 1998 SBC Annual Report to Shareowners under the heading "Market Risk" and the 1998 Ameritech Annual Report to Shareowners under the heading "Disclosures About Market Risk".)

As of September 30, 1999, SBC had increased its level of commercial paper borrowing for the acquisitions of its investments in Bell Canada, Comcast and Cellular Communications. SBC does not anticipate any significant changes in its risk management objectives and strategies with respect to managing this interest rate exposure.

In May 1999, SBC entered agreements to participate in several interest rate swaps (Swaps) with notional values totaling \$795. The Swaps have terms to pay variable rates of interest, and to receive fixed rates of interest designed to match certain low-coupon debt liabilities on SBC's balance sheet. The Swaps mature 2002 through 2006. SBC will record interest rate settlements as adjustments to interest expense in the consolidated statements of income when paid or received. SBC currently does not recognize the fair value of these derivative financial instruments or their changes in its financial statements. Any gains or losses on the Swaps are deferred until each instrument is terminated. At September 30, 1999, the fair values of the Swaps were \$9 below the original value.

Effective June 30, 1999, as a result of Vodafone Group PLC merging with AirTouch Communications, Inc. (AirTouch), forming Vodafone AirTouch PLC (Vodafone AirTouch), the outstanding AirTouch stock options held by SBC employees were converted to Vodafone AirTouch options. For each option for a share of AirTouch common stock, the option holders received an option in 0.5 ADR's of Vodafone AirTouch and the grant price of the options were reduced for the value of cash received by AirTouch shareowners. The last option grant expires January 2003, and as of September 30, 1999 approximately 88,000 options were still outstanding with an underlying stock option exposure of \$19.

CAUTIONARY LANGUAGE CONCERNING FORWARD-LOOKING STATEMENTS

Information set forth in this report contains forward-looking statements that are subject to risks and uncertainties. SBC claims the protection of the safe harbor for forward-looking statements provided by the Private Securities Litigation Reform Act of 1995.

The following factors could cause SBC's future results to differ materially from those expressed in the forward-looking statements: (1) adverse economic changes in the markets served by SBC or changes in available technology; (2) the final outcome of various FCC rulemakings and judicial review, if any, of such rulemakings; (3) the final outcome of various state regulatory proceedings in SBC's 13-state area, and judicial review, if any, of such proceedings; (4) the timing of entry and the extent of competition in the local and intraLATA toll markets in SBC's 13-state area; (5) the impact of the Ameritech transaction, including performance with respect to regulatory requirements and merger integration efforts; and (6) the deployment of SBC's broadband initiative also known as Project Pronto. Readers are cautioned that other factors discussed in this report, although not enumerated here, also could materially impact SBC's future earnings.

SBC COMMUNICATIONS INC.

PART II - OTHER INFORMATION

Item 2. Changes in Securities and Use of Proceeds

During the third quarter of 1999, the Company sold shares of common stock to non-employee directors pursuant to the Company's Non-Employee Director Stock and Deferral Plan. Under the plan, a director may make an annual election to receive all or part of his annual retainer or fees in the form of SBC shares or deferred stock units (DSUs) that are convertible into SBC shares. During this period, an aggregate of 2,490 SBC shares and DSUs were purchased by non-employee directors at prices ranging from \$49.00 to \$56.125, in each case the fair market value of the shares on the date of purchase. The issuances of shares and DSUs were exempt from registration pursuant to Section 4(2) of the Securities Act.

Item 6. Exhibits and Reports on Form 8-K

(a) **Exhibits**

Exhibit 12a Computation of Ratios of Earnings to Fixed Charges.

Exhibit 12b Supplemental Pro Forma Computation of Ratios of Earnings to Fixed Charges.

Exhibit 27 Financial Data Schedule.

(b) **Reports on Form 8-K**

There were no reports on Form 8-K filed during the quarter ended September 30, 1999.

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

SBC Communications Inc.

November 12, 1999

/s/ Donald E. Kiernan
Donald E. Kiernan
Senior Executive Vice President
and Chief Financial Officer

SBC COMMUNICATIONS INC.

COMPUTATION OF RATIOS OF EARNINGS TO FIXED CHARGES

Dollars in Millions

	NINE MONTHS ENDED SEPTEMBER 30,		YEAR ENDED DECEMBER 31,				
	1999	1998	1998	1997	1996	1995	1994
Income Before Income Taxes, Extraordinary Loss and Cumulative Effect of Accounting Changes*	\$ 5,402	\$ 5,099	\$ 6,318	\$ 2,558	\$ 5,283	\$ 4,670	\$ 4,403
Add: Interest Expense	641	760	993	1,043	901	1,043	1,010
Dividends on Preferred Securities	60	60	80	80	60	-	-
1/3 Rental Expense	112	107	147	129	115	85	93
Adjusted Earnings	\$ 6,215	\$ 6,026	\$ 7,538	\$ 3,810	\$ 6,359	\$ 5,798	\$ 5,506
Total Interest Charges	\$ 689	\$ 808	\$ 1,052	\$ 1,168	\$ 1,043	\$ 1,048	\$ 1,010
Dividends on Preferred Securities	60	60	80	80	60	-	-
1/3 Rental Expense	112	107	147	129	115	85	93
Adjusted Fixed Charges	\$ 861	\$ 975	\$ 1,279	\$ 1,377	\$ 1,218	\$ 1,133	\$ 1,103
Ratio of Earnings to Fixed Charges	7.22	6.18	5.89	2.77	5.22	5.12	4.99

*Undistributed earnings on investments accounted for under the equity method have been excluded.

SBC COMMUNICATIONS INC.
SUPPLEMENTAL PRO FORMA COMPUTATION OF RATIOS OF EARNINGS TO FIXED CHARGES
Dollars in Millions

EXHIBIT 12b

	NINE MONTHS ENDED SEPTEMBER 30,		YEAR ENDED DECEMBER 31,			
	1999	1998	1998	1997	1996	1995
Income Before Income Taxes, Extraordinary Loss and Cumulative Effect of Accounting Changes*						
Add: Interest Expense	\$ 7,773	\$ 9,527	\$ 11,859	\$ 6,356	\$ 8,789	\$ 8,139
Dividends on Preferred Securities	1,069	1,223	1,605	1,550	1,418	1,513
1/3 Rental Expense	87	85	114	98	68	6
	174	166	228	202	188	152
Adjusted Earnings	\$ 9,103	\$ 11,001	\$ 13,806	\$ 8,206	\$ 10,463	\$ 9,810
Total Interest Charges	\$ 1,132	\$ 1,292	\$ 1,691	\$ 1,700	\$ 1,589	\$ 1,533
Dividends on Preferred Securities	87	85	114	98	68	6
1/3 Rental Expense	174	166	228	202	188	152
Adjusted Fixed Charges	\$ 1,393	\$ 1,543	\$ 2,033	\$ 2,000	\$ 1,845	\$ 1,691
Ratio of Earnings to Fixed Charges	6.53	7.13	6.79	4.10	5.67	5.80
						4.90

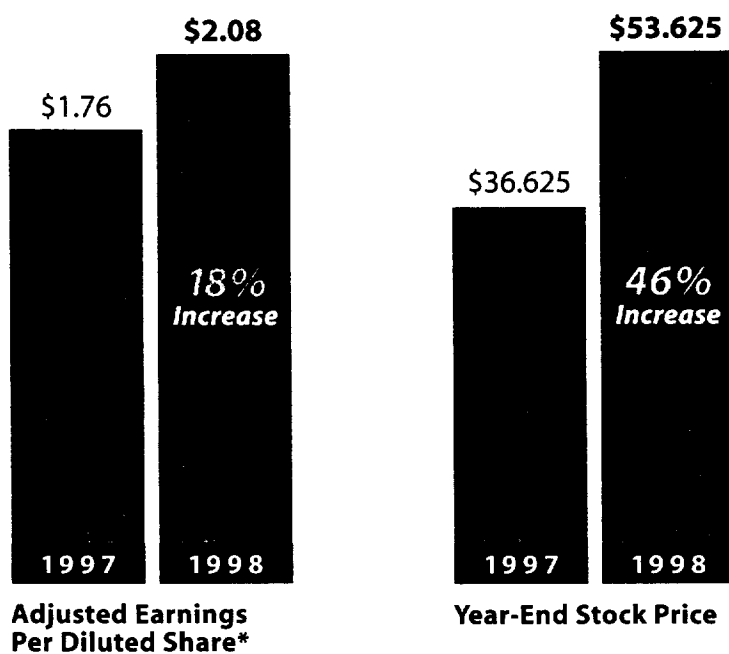
*Undistributed earnings on investments accounted for under the equity method have been excluded.

EXHIBIT C

SBC Communications Inc.'s 1998 Annual Report

SBC Communications Inc.

1998 ANNUAL REPORT



Nineteen ninety-eight was a year of exceptional progress for SBC Communications, as we strengthened our leadership in telecommunications and continued to shape our future as an integrated, full-service, global competitor...

SBC offers innovative services through brands that a



PACIFIC  BELL®

6.9 millio

NEVADA 

Investments in telecommunications businesses in 10 countries



More tha

are among the industry's strongest:

More than 37 million access lines



million wireless customers across the United States

BELL®

\$28.8 billion in 1998 revenues

CELLULARONE®

han 129,000 employees

Amid dynamic industry change, we remain focused on providing our customers a seamless range of high-quality services whenever and wherever they need them, while providing outstanding value to our shareowners.

This document reports progress on our initiatives to remain one of the world's leading telecommunications companies now and in the 21st century.

*Adjusted earnings per diluted share represent income before extraordinary loss and cumulative effect of accounting change adjusted for the following: 1998 excludes a net charge of \$0.03 per diluted share principally for strategic decisions related to the merger of SBC and SNET offset by gains on the sale of certain non-core businesses; 1997 excludes a net charge of \$0.91 per diluted share regarding \$1.8 billion of one-time charges principally for strategic decisions related to the merger of SBC and Pacific Telesis. These adjustments are described on page 6.

1998 Progress Report

Financial information (dollars in millions)	1998	1997	Change
Reported net income	\$4,023	\$1,674	140.3%
Accounting change and Extraordinary loss - net	\$ 45	\$ —	—
Reported earnings	\$4,068	\$1,674	143.0%
Special charges	\$ 49	\$1,776	—
Adjusted earnings	\$4,117	\$3,450	19.3%

Adjusted earnings for 1998 exclude \$49 million for net charges principally for strategic decisions related to the merger of SBC and SNET offset by gains on the sales of certain non-core businesses. Adjusted earnings for 1997 exclude \$1.8 billion of one-time net charges principally for strategic decisions related to the merger of SBC and Pacific Telesis. These adjustments are described on page 6.

Per Share of Common Stock	1998	1997	Change
Adjusted earnings per diluted share	\$ 2.08	\$ 1.76	18.2%
Dividend	\$ 0.935	\$ 0.895	4.5%
Year-end stock price	\$53.625	\$36.625	46.4%

HIGHLIGHTS

SBC advances its global strategy by announcing plans to merge with Ameritech and then expand to 30 markets beyond the new company's combined region. The merger will provide increased scale and geographic scope, enabling the company to provide high-quality, competitive services to customers in the nation's 50 largest markets.

SBC acquires Southern New England Telecommunications (SNET), gaining another great brand, strong wireline and complementary wireless businesses, long-distance experience and expanded presence in the Northeastern United States.

Synergies from the Pacific Telesis merger are ahead of schedule to add \$1 billion in net income by next year.

In January 1999, SBC launches the nation's largest rollout of Asymmetrical Digital Subscriber Line (ADSL) — a high-speed Internet access service — at affordable prices, capitalizing on opportunities in the rapidly growing data market.

The February 1999 alliance with Williams Communications provides SBC with a high-quality fiber-based broadband network for long-distance service.

DEAR FELLOW INVESTOR:

Nineteen ninety-eight was an **excellent year** for SBC Communications. It was, first and foremost, a year in which your company delivered **strong earnings growth**. We also took **strategic steps** to ensure that, as our industry continues to evolve, SBC will continue to create outstanding value for you well into the future.

In 1998, our adjusted earnings rose by **19.3 percent**. Accounting for our February 1998 two-for-one stock split, SBC's diluted earnings per share were \$2.08, up 18.2 percent over 1997.

Including stock price appreciation and reinvested dividends, total shareowner return in 1998 was 49.72 percent. This brings our total compounded annual return since 1984 — when we became an independent company — to 23.15 percent. That result exceeds a combined return during the same period of 22.04 percent for our telecommunications peers, and 17.84 percent for the Standard & Poor's 500.

We are pleased but not satisfied. To ensure that we continue delivering excellent performance in 1999 and beyond, the SBC team moved forward in 1998 on four strategic fronts:

Continuing to maximize growth in our core businesses. Over the years, SBC has established a solid record for making the most of our core wireline and wireless businesses by increasing revenues while controlling expenses. Nineteen ninety-eight was no exception:

- Revenues were \$28.8 billion, up 7.9 percent over the previous year.
- Access line growth remained impressive in 1998, with a 4.1 percent increase in residential lines. Meanwhile, our business line growth was 15.6 percent, including both voice lines and data circuits.
- We achieved outstanding sales of additional calling features. Pacific Bell, for example, ended the year with more than 1.5 million Caller ID customers, and increased the penetration of features for residential customers by more than 44 percent to 1.26 vertical features per line.
- Southwestern Bell achieved an industry-leading residential Caller ID penetration rate of more than 50 percent.

The company's wireless operations also performed well in 1998. Our new Personal Communications Services (PCS) offering in California and Nevada, in particular, experienced exceptional growth. Across all of our markets, including Southwestern Bell, Pacific Bell, and Cellular One, we increased our number of subscribers to 6.9 million and added digital service to meet the demands of high-use customers. This includes the half million subscribers we serve through the acquisition of Southern New England Telecommunications (SNET) that further increased our wireless customer base. In January 1999, we agreed to acquire Comcast Cellular Corporation, which has cellular properties in Pennsylvania, New Jersey and Delaware, subject to regulatory approval. With these significant acquisitions, we are confident of our ability to grow our wireless base — and maintain healthy margins — despite fierce competition.

We also accelerated the process of value creation from the Pacific Telesis merger. Thanks to the hard work and dedication of our merger integration teams, we took full advantage of the best practices of both companies through operational initiatives that are ahead of schedule in adding \$1 billion to our annual income by the end of 2000. Equally important, the completion of our merger with Southern New England Telecommunications established SNET as a solid anchor for our expansion in the Northeast.

Aggressively expanding our data capabilities. To remain a communications industry leader, SBC must be a data communications leader. Our 1998 data service revenues increased 32 percent over 1997, as demand for data services continued to expand rapidly.

We made major strides in meeting that demand. We introduced industry-leading, high-speed Asymmetrical Digital Subscriber Line (ADSL) services in California, a flexible offering that will provide customers with much faster Internet access to move integrated packages of voice, data and video quickly and securely.

Expanding national and international reach. As the telecommunications industry evolves, we believe two types of companies will emerge. A small group of full-service, global carriers will offer customers what they increasingly demand — integrated services, including local, long distance, wireless, and high-speed data communications. A second, larger group will consist of smaller, narrowly focused regional providers. SBC intends to be a global competitor. Only by doing so can we provide the financial returns we expect well into the future.

As a result, we decided in 1998 to expand our resources and geographic reach, gaining size and scope to provide our customers a seamless range of high-quality services whenever and wherever they need them. Our planned merger with Ameritech, which has received overwhelming approval from the shareowners of both companies, is a critical step in this direction.

Based on both companies' combined 1998 revenues, the Ameritech merger will create a powerful competitor, with more than \$45 billion in revenues and some 200,000 of the best employees in our business. Our combined territories will include the headquarters of almost half of the Fortune 500 companies, and we will have a presence in 20 of the top 50 markets in the country. But what really sets this merger apart is the role it plays in our becoming a global company.

The merged company will move aggressively to enter the top 30 markets outside our combined territories. We plan to provide residential and business customers in those markets with one-stop shopping for their telecommunications needs. As we build a competitive presence in the nation's top 50 markets, we plan to develop a state-of-the-art voice and data network that will carry our customers' voice and data traffic anywhere in the world. Our ability to do just that took a major step forward in February 1999, when we announced an alliance with Williams Communications. This agreement gives us access to one of the industry's highest quality data and voice broadband networks, while enabling us to have a voice in the future expansion and development of that network around the needs of our customers.

We expect to complete the Ameritech merger in the second half of 1999, then move quickly to integrate Ameritech's operations into ours, as we did with Pacific Telesis and are doing with SNET.

Providing long-distance services. To be a true full-service provider, SBC must have the freedom to offer long-distance service to all of our customers, wherever they live or work. In 1998, we moved closer to securing that capability by continuing to open our local markets to competitors. And we are working closely with regulators to gain their support for our long-distance entry. While we are disappointed that the process has taken so long, our alliance with Williams ensures that, as soon as we receive regulatory approval to offer long distance, we can move immediately to add this critical offering to our range of services.

SBC entered 1998 strongly positioned to build value for our shareowners, with great markets, great businesses and a proven ability to execute our plans. During the year, we expanded those markets, strengthened our businesses and enhanced our reputation for superior execution.

More important, by refining our strategies and taking decisive steps to become an integrated, worldwide competitor, we are guiding SBC toward a clearly defined objective — becoming a global enterprise with the resources and flexibility to take advantage of the most promising growth opportunities.

That is where SBC's focus has always been. And, despite the changes ahead, that is where it will stay — on building value for our owners.

We will keep you informed as we move ahead in 1999. In the meantime, thank you for your continued confidence and support.



Edward E. Whitacre Jr.

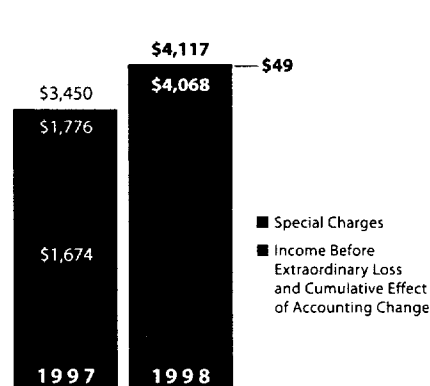
Edward E. Whitacre Jr.
Chairman and Chief Executive Officer
February 12, 1999

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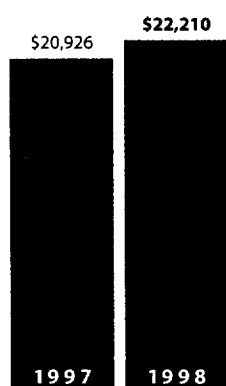
SELECTED FINANCIAL HIGHLIGHTS

Dollars in millions except per share amounts, as of or for the year ended December 31.



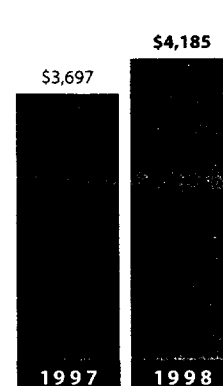
Income Before Extraordinary Loss and Cumulative Effect of Accounting Change

Results for 1998 and 1997 were adjusted for special charges.



Wireline Operating Revenues

Results for 1998 and 1997 were adjusted for special charges.



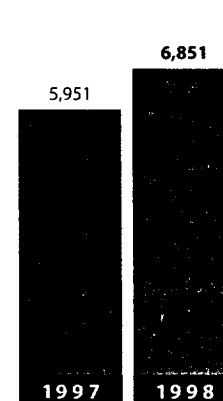
Wireless Operating Revenues



Dividends Declared Per Common Share



Access Lines*



Wireless Customers*

*in thousands

SELECTED FINANCIAL AND OPERATING DATA

ars in millions except per share amounts

December 31 or for the year ended:	1998 ¹	1997 ²	1996	1995	1994
Financial Data					
Operating revenues	\$28,777	\$26,681	\$25,202	\$23,356	\$22,555
Operating expenses	\$21,891	\$23,103	\$18,976	\$17,878	\$17,216
Operating income	\$ 6,886	\$ 3,578	\$ 6,226	\$ 5,478	\$ 5,339
Interest expense	\$ 993	\$ 1,043	\$ 901	\$ 1,043	\$ 1,010
Minority in net income of affiliates	\$ 236	\$ 201	\$ 207	\$ 120	\$ 226
Income taxes	\$ 2,306	\$ 984	\$ 2,070	\$ 1,632	\$ 1,575
Income from continuing operations before extraordinary loss and cumulative effect of accounting changes ³	\$ 4,068	\$ 1,674	\$ 3,387	\$ 3,132	\$ 2,962
Net income (loss)	\$ 4,023	\$ 1,674	\$ 3,477	\$ (3,577)	\$ 2,985
Earnings per common share:					
Income from continuing operations before extraordinary loss and cumulative effect of accounting changes ³	\$ 2.08	\$ 0.86	\$ 1.73	\$ 1.60	\$ 1.53
Net income (loss)	\$ 2.06	\$ 0.86	\$ 1.78	\$ (1.83)	\$ 1.54
Earnings per common share – Assuming Dilution:					
Income from continuing operations before extraordinary loss and cumulative effect of accounting changes ³	\$ 2.05	\$ 0.85	\$ 1.72	\$ 1.60	\$ 1.53
Net income (loss)	\$ 2.03	\$ 0.85	\$ 1.77	\$ (1.82)	\$ 1.54
Total assets	\$45,066	\$44,836	\$42,057	\$40,361	\$49,525
Long-term debt	\$11,612	\$13,176	\$12,100	\$11,592	\$11,698
Construction and capital expenditures	\$ 5,927	\$ 6,230	\$ 5,855	\$ 4,729	\$ 4,262
Free cash flow ⁴	\$ 2,454	\$ 1,366	\$ 2,046	\$ 2,572	\$ 3,058
Dividends declared per common share ⁵	\$ 0.935	\$ 0.895	\$ 0.86	\$ 0.825	\$ 0.79
Book value per common share	\$ 6.52	\$ 5.38	\$ 5.22	\$ 4.50	\$ 7.36
Ratio of earnings to fixed charges	5.89	2.77	5.22	5.12	4.99
Debt ratio	48.86%	57.07%	56.83%	63.04%	48.71%
Weighted Average Common Shares Outstanding (000,000)	1,957	1,945	1,956	1,955	1,936
Weighted Average Common Shares Outstanding With Dilution (000,000)	1,984	1,962	1,967	1,963	1,940
End of Period Common Shares Outstanding (000,000)	1,959	1,954	1,942	1,960	1,952
Operating Data					
Network access lines in service (000)	37,252	35,727	34,003	32,385	31,173
Less minutes of use (000,000)	148,560	139,470	128,716	112,874	100,800
Wireless customers (000)	6,851	5,951	4,827	3,995	3,158
Number of employees	129,850	128,100	119,270	117,260	120,140

¹ Detailed in management's discussion and analysis of Results of Operations, 1998 results include charges for strategic initiatives related to the merger with Southern New England Communications Corporation (SNET) and gains on sales of certain non-core businesses. Excluding these items, SBC reported an adjusted income from continuing operations before extraordinary loss and cumulative effect of accounting change of \$4,117 and an adjusted net income of \$4,072 for 1998.

² Detailed in management's discussion and analysis of Results of Operations, 1997 results include charges for several items including strategic initiatives and ongoing merger integration costs, gain on the sale of SBC's interests in Bell Communications Research, Inc. and a first quarter after-tax settlement gain. Excluding these items, SBC reported an adjusted income of \$3,450 for 1997.

³ 1998, Early retirement of debt and Change in directory accounting; 1996, Change in directory accounting; 1995, Discontinuance of Regulatory Accounting; and 1994, Income from spin-off operations.

⁴ Free cash flow is net cash provided by operating activities less construction and capital expenditures.

⁵ Dividends declared by SBC's Board of Directors; these amounts do not include dividends declared and paid by Pacific Telesis Group and SNET prior to their respective mergers.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Dollars in millions except per share amounts

SBC Communications Inc. (SBC) is a holding company whose subsidiaries and affiliates operate predominantly in the communications services industry. SBC's subsidiaries and affiliates provide landline and wireless telecommunications services as well as equipment and directory advertising both domestically and worldwide.

The consolidated financial results reflect SBC's mergers with Southern New England Telecommunications Corporation (SNET) in 1998 and Pacific Telesis Group (PAC) in 1997 as pooling of interests (see Note 2 of Notes to Consolidated Financial Statements).

SBC's principal wireline subsidiaries are Southwestern Bell Telephone Company (SWBell), providing telecommunications services in Texas, Missouri, Oklahoma, Kansas and Arkansas

(five-state area), Pacific Bell (PacBell, which also includes Pacific Bell Information Services), The Southern New England Telephone Company (SNETel) and Nevada Bell (collectively referred to as the Telephone Companies). SBC's principal wireless subsidiaries are Southwestern Bell Mobile Systems, Inc. (Mobile Systems), Pacific Bell Mobile Services (PBMS) and SNET Cellular, Inc. SBC's principal directory subsidiaries are Southwestern Bell Yellow Pages, Inc. (SWBYP), Pacific Bell Directory (PB Directory) and SNET Information Services, Inc. The Telephone Companies are subject to regulation by each of the states in which they operate and by the Federal Communications Commission (FCC).

This discussion should be read in conjunction with the consolidated financial statements and the accompanying notes.

RESULTS OF OPERATIONS

Summary

Financial results, including percentage changes from the prior year, are summarized as follows:

	1998	1997	1996	Percent Change	
				1998 vs. 1997	1997 vs. 1996
Operating revenues	\$28,777	\$26,681	\$25,202	7.9%	5.9%
Operating expenses	\$21,891	\$23,103	\$18,976	(5.2)%	21.7%
Income before extraordinary loss and cumulative effect of accounting change	\$ 4,068	\$ 1,674	\$ 3,387	—	—
Extraordinary loss	\$ (60)	—	—	—	—
Cumulative effect of accounting change	\$ 15	—	\$ 90	—	—
Net income	\$ 4,023	\$ 1,674	\$ 3,477	—	—

In 1998 and 1996, SBC reflected a cumulative effect of accounting change related to accounting for directory revenues and expenses (see Note 1 of Notes to Consolidated Financial Statements). In 1998, SBC incurred an extraordinary loss related to the early retirement of debt at PacBell (see Note 10 of Notes to Consolidated Financial Statements).

Results for 1998 and 1997 also include several items that SBC normalizes for management purposes. For 1998, normalizing items included \$219 of gains on sales of certain non-core businesses, principally the required disposition of SBC's interest in Mobile Telephone Networks (MTN), a South African national cellular company, due to SBC's investment in Telkom SA Limited (Telkom), and \$268 of charges related to strategic initiatives resulting from the merger integration process with SNET. For 1997, normalizing items included \$1,899 of costs related to strategic initiatives resulting from the merger integration process with PAC, the impact of several second quarter 1997 regulatory rulings and charges for ongoing merger integration costs (see Note 2 of Notes to Consolidated Financial Statements for further discussion of merger integration costs), as well as \$33 of gain on the sale of the Telephone Companies' interests in Bell Communications Research, Inc. (Bellcore) and \$90 of first quarter 1997 settlement gain at PAC associated with lump-sum pension payments that exceeded the projected service and interest costs for 1996 retirements. Collectively these items decreased income before extraordinary

loss and cumulative effect of accounting change by \$49 and \$1,776 in 1998 and 1997. Excluding these items, 1998 income before extraordinary loss and cumulative effect of accounting change would have been \$4,117, or 19.3% higher than 1997 earnings of \$3,450. The corresponding diluted per share amounts would be \$2.08 in 1998, or 18.2% higher than \$1.76 in 1997.

Excluding these items, the 1998 increase in income before extraordinary loss and cumulative effect of accounting change was due primarily to broad-based growth in demand for SBC's Wireline, Wireless and Directory operations. Results for 1998 also reflect reduced dilution from Personal Communications Services (PCS) operations in California and Nevada. Demand growth was also the primary factor contributing to the 1997 increases, partially offset by a high level of expenses for the introduction of PCS in California and Nevada.

Segment Results

SBC has four reportable segments: Wireline, Wireless, Directory and Other. The Wireline segment provides landline telecommunications services, including local, network access and long distance services, messaging and Internet services and sells customer premise and private business exchange equipment. The Wireless segment provides wireless telecommunications services, including local and long distance services, and sells wireless equipment. The Directory segment sells advertising for and publication of yellow pages and white pages directories and electronic publishing. The Other segment includes SBC's international investments

other domestic operating subsidiaries. (See Note 9 of Notes to Consolidated Financial Statements.)

SBC evaluates performance of these segments based on income before income taxes, adjusted for normalizing items. Normalizing items for 1998 and 1997 are described above. There were no normalizing items for 1996.

Collectively, these normalizing items had the effect of reducing operating revenues in 1998 and 1997 by \$8 and \$188 and

increasing operating expenses in 1998 and 1997 by \$422 and \$2,550, as well as affecting non-operating income and expenses. If all of the normalizing items were included in their respective segments, the effect would be to increase (reduce) each segment's income before income tax in 1998 and 1997 as follows: Wireline \$(306) and \$(2,007); Wireless \$(49) and \$(100); Directory \$12 and \$(75); and Other \$268 and \$0. The following sections will discuss SBC's operations excluding these normalizing items.

Operating Revenues

Following are SBC's normalized operating revenues, including segment totals and percentage changes from the prior year (reductions of \$8 in 1998 and \$188 in 1997 are excluded):

	1998	1997	1996	Percent Change	
				1998 vs. 1997	1997 vs. 1996
Wireline	\$22,210	\$20,926	\$19,919	6.1%	5.1%
Wireless	4,185	3,697	3,137	13.2	17.9
Directory	2,393	2,286	2,145	4.7	6.6
Other	85	57	43	49.1	32.6
Corporate, adjustments & eliminations	(88)	(97)	(42)	(9.3)	—
Total Normalized Operating Revenues	\$28,785	\$26,869	\$25,202	7.1%	6.6%

Wireline

Wireline operating revenues increased \$1,284, or 6.1%, in 1998 and \$1,007, or 5.1%, in 1997. Components of Wireline operating revenues, including percentage changes from the prior year, are as follows:

	1998	1997	1996	Percent Change	
				1998 vs. 1997	1997 vs. 1996
Local service	\$11,154	\$10,434	\$ 9,513	6.9%	9.7%
Network access:					
Interstate	4,612	4,494	4,354	2.6	3.2
Intrastate	1,917	1,884	1,851	1.8	1.8
Long distance service	2,353	2,351	2,523	0.1	(6.8)
Other	2,174	1,763	1,678	23.3	5.1
Total Wireline	\$22,210	\$20,926	\$19,919	6.1%	5.1%

Local Service revenues increased \$720, or 6.9%, in 1998 and \$1,007, or 9.7%, in 1997 due primarily to increases in demand which totaled \$656 and \$799 in 1998 and 1997, including increases in access lines and vertical services revenues. The number of access lines increased by 4.3% and 5.1% in 1998 and 1997. Approximately 31% of access line growth in 1998 and 1997 was due to addition of additional access lines to existing residential customers. In 1998, approximately 46% of the access line growth was in California and 32% was in Texas. Access lines in Texas and California account for approximately 75% of the Telephone Companies' access lines. Vertical services revenues, which include custom call options, Caller ID, voice mail and other enhanced services, increased by approximately 20% in both years and totaled approximately \$1,892 and \$1,582 in 1998 and 1997.

Additionally, local service revenues increased as a result of federal regulatory actions that also had the effect of decreasing other or more other types of operating revenues. In 1998 and 1997,

federal payphone regulation, introduction of extended area service plans and the introduction of the California High Cost Fund (CHCFB) collectively increased local service revenues by approximately \$157 and \$211, and decreased long distance revenue by approximately \$53 and \$117, interstate network access revenue by \$20 and \$53, intrastate network access revenue by approximately \$24 and \$26 and other operating revenue by approximately \$7 and \$0. The net effect on Wireline operating revenue was an increase of \$53 and \$15 in 1998 and 1997. The California Public Utilities Commission (CPUC) has stated that the CHCFB is intended to directly subsidize the provision of service to high-cost areas and allow PacBell to set competitive rates for other services.

These increases in local service revenues were partially offset by decreases of approximately \$43 and \$18 resulting from cellular interconnection rate reductions in 1998 and 1997. Rate reductions under CPUC price cap orders also reduced 1997 local service revenues by approximately \$56.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (CONTINUED)

in millions except per share amounts

Network Access Interstate network access revenues decreased \$118, or 2.6%, in 1998 and \$140, or 3.2%, in 1997 due primarily to increases in demand for access services by interexchange carriers, and growth in revenues from end-user charges attributable to an increasing access line base, which collectively resulted in an increase of approximately \$420 and \$361 in 1998 and 1997. Partially offsetting these increases were the effects of reductions of approximately \$189 in 1998 and \$120 in 1997 related to the FCC's productivity factor adjustment, access reform and other changes and regulatory shifts related to payphone deregulation of approximately \$20 and \$53 as noted in local service above. Additional decreases in 1998 totaling approximately \$76 resulted from an increase in universal service fund net payments implemented in the first quarter of 1998 that exceeded 1997 net payments of long-term support, which were designed to subsidize universal service. The net federal universal fund payments and receipts will be exogenous factors in future universal price cap filings. Interstate network access revenues in 1997 also had a net decrease of approximately \$42 due to the reversal of 1996 revenue sharing and proposed 1996 tariff increase estimates at the Telephone Companies. Intrastate network access revenues increased \$33 in both 1998 and 1997, due largely to increases in demand totaling approximately \$79 and \$121 in 1998 and 1997, including usage by alternative intraLATA toll carriers. These increases in 1998 and 1997 were partially offset by state regulatory rate reductions at SBC and SWBell totaling approximately \$23 and \$50 and the effects of the CHCFB described above in local service totaling approximately \$24 and \$26.

Wireless

Wireless operating revenues increased \$488, or 13.2%, in 1998 and \$560, or 17.9%, in 1997. Components of Wireless operating revenues, including percentage changes from the prior year, are as follows:

	1998	1997	1996	Percent Change	
				1998 vs. 1997	1997 vs. 1996
Subscriber	\$3,783	\$3,372	\$2,907	12.2%	16.0%
Resale	402	325	230	23.7	41.3
Total Wireless	\$4,185	\$3,697	\$3,137	13.2%	17.9%

Subscriber revenues consist of wireless local service and long distance. Wireless subscriber revenues increased \$411, or 12.2%, in 1998 and \$465, or 16%, in 1997 due primarily to growth in the number of customers of 15.1% and 23.3%, partially offset by declines in average revenue per customer. Increases in 1997 in wireless subscriber revenues of approximately \$103 also resulted from the introduction of PCS operations in California, Nevada and Arizona. At December 31, 1998, SBC had 5,924,000 traditional

Long Distance Service revenues were relatively unchanged in 1998 and decreased approximately \$172, or 6.8%, in 1997. Long distance service revenues decreased due to the effect of the regulatory shifts discussed in local service above of approximately \$53 and \$117 in 1998 and 1997 related to the CHCFB, introduction of extended area service plans and payphone deregulation, price competition from alternative intraLATA toll carriers of approximately \$43 and \$100 in 1998 and 1997 at SWBell and SNETel and regulatory rate reductions of approximately \$34 in 1997. These decreases were offset in 1998 and partially offset in 1997 by revenues from increased toll messages and demand at PacBell totaling approximately \$48 and \$45 in 1998 and 1997 and increased customer migration to SNET All Distance®, an interstate and intrastate toll service, of approximately \$20 and \$42 in 1998 and 1997. In addition, revenues in 1998 increased by approximately \$22 due to the net effect of regulatory rate orders and local exchange carrier billing settlements.

Other operating revenues increased \$411, or 23.3%, in 1998 and \$85, or 5.1%, in 1997 due primarily to increased sales from nonregulated products and services at the Telephone Companies totaling approximately \$201 and \$72 in 1998 and 1997, increased equipment sales at the Telephone Companies of approximately \$92 and \$6 in 1998 and 1997 and revenues from new business initiatives, primarily Internet services, totaling approximately \$71 and \$39 in 1998 and 1997. In addition, net payments for state universal funds of approximately \$15 in 1998 contributed to the increase. These increases were partially offset in 1998 by approximately \$7 related to the CHCFB, discussed in local service above.

cellular customers, 81,000 resale customers and 846,000 PCS customers. At December 31, 1997, SBC had 5,526,000 traditional cellular customers, 60,000 resale customers and 365,000 PCS customers.

Other wireless revenues increased \$77, or 23.7%, in 1998 and \$95, or 41.3%, in 1997 due primarily to increases in equipment revenue attributable to growth in the number of customers and conversion to digital equipment.

Directory

Directory operating revenues increased \$107, or 4.7%, in 1998 and \$141, or 6.6%, in 1997. Directory operating revenues, including percentage changes from the prior year, are as follows:

	1998	1997	1996	Percent Change	
				1998 vs. 1997	1997 vs. 1996
Local Directory	\$2,393	\$2,286	\$2,145	4.7%	6.6%

Directory operating revenues increased in 1998 due mainly to increased demand, including benefits from merger initiatives. Also contributing to the increase was approximately \$17 from directory rescheduling from the first quarter of 1999 into the

fourth quarter of 1998. Directory advertising revenues increased in 1997 due mainly to increased demand and the publication of directories in 1997 that were not published in 1996 due to rescheduling.

Operating Expenses

Following are SBC's normalized operating expenses, including percentage changes from the prior year (additions of \$422 in 1998 and \$550 in 1997 are excluded):

	1998	1997	1996	Percent Change	
				1998 vs. 1997	1997 vs. 1996
Operations and support:					
Wireline	\$12,711	\$12,291	\$11,464	3.4%	7.2%
Wireless	2,786	2,610	1,994	6.7	30.9
Directory	1,227	1,230	1,159	(0.2)	6.1
Other	152	93	46	63.4	—
Corporate, adjustments & eliminations	(363)	(368)	(153)	(1.4)	—
Local operations and support	16,513	15,856	14,510	4.1	9.3
Depreciation and amortization*	4,956	4,697	4,466	5.5	5.2
Local Normalized Operating Expenses	\$21,469	\$20,553	\$18,976	4.5%	8.3%

* Note 9 of Notes to Consolidated Financial Statements for breakdown by segment.

Wireline Operations and support expenses increased \$420, or 3.4%, in 1998 and \$827, or 7.2%, in 1997. Increases for 1998 include costs of approximately \$262 related to progress in the merger implementation process including centralizing support functions and other merger initiatives at SWBell and PacBell. Offsetting these increased costs were reductions in 1998 primarily related to realization of merger initiative benefits that totaled approximately \$317. These reductions included lower costs of contract labor, primarily at PacBell, lower costs associated with customer number portability and reduced research and development costs. Operations and support expense also increased in 1998 due to costs associated with reciprocal compensation for the termination of Internet traffic of approximately \$136 by the Telephone Companies (see "Federal Regulation" for further discussion about reciprocal compensation). Increased expenses in 1997 of approximately \$55 related to new business initiatives, primarily voice mail, Internet, long distance and cable. Additional costs in 1998 totaling approximately \$172 related to increased wages and salaries, benefits, materials and right to use fees. Comparisons to 1997 are also impacted by the absence of the recognition of 1997 pension settlement gains relating to 1997 releases after the merger with PAC totaling approximately \$136.

Increases in 1997 include costs for wages, salaries, benefits, sales commissions and contract labor totaling approximately \$327. Increases in 1997 also include costs associated with customer number portability after the merger with PAC, interconnection, other regulatory mandated network enhancements and materials of approximately \$414. Increased expenses in 1997 of approximately \$156 related to new business initiatives, primarily voice mail, Internet, long distance and cable. These increases were partially offset by a reduction related to the recognition of pension settlement gains discussed above.

Wireless Wireless expenses increased \$176, or 6.7%, in 1998 and \$616, or 30.9%, in 1997 due primarily to growth in the number of customers and increased equipment sales. The large increase in 1997 expenses includes approximately \$362 of expenses from the introduction of PCS operations. These increases were partially offset by decreased customer acquisition costs of 11% and 4% in 1998 and 1997.

Directory Directory expenses remained relatively unchanged in 1998 as lower costs resulting from the merger integration process, including decreased employee-related costs, were offset by expenses from increased demand and directory rescheduling discussed in directory operating revenue above. Directory

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (CONTINUED)

Millions except per share amounts

increased in 1997 due mainly to increased demand and publication of directories in 1997 that were not published in 1996 due to rescheduling.

Depreciation and Amortization expense is primarily in the Wireline and Wireless segments. In total, depreciation and amortization increased \$259, or 5.5%, in 1998 due primarily to an increase in depreciation expense of \$201 in the Wireline segment and an increase in depreciation expense of \$58 in the Wireless segment resulting from overall higher plant levels. The increase in 1998 was partially offset by reduced depreciation at PacBell related to analog switching equipment. Total depreciation and amortization increased \$231, or 5.1%, in 1998. The increase was due to increased depreciation of \$193 in the Wireline segment and \$141 in the Wireless segment resulting from overall higher plant levels. The Wireless increase was due primarily to the launch of PCS operations. Depreciation of \$107 at PacBell related to analog switching equipment partially offset the increase.

Interest Expense on a consolidated basis for 1998 decreased 4.8%, in 1998 and increased by \$142, or 15.8%, in 1997. Interest expense for 1998 includes \$3 of one-time charges for merger-approval costs and 1997 includes \$27 associated with one-time charges, primarily interest on the PAC merger costs. Excluding these charges, interest expense for 1998 decreased \$26, or 2.6%, and increased \$115, or 12.8%, for 1997. The 1998 decrease was due primarily to reductions in interest expense resulting from lower average debt levels and lower average interest rates, partially offset by lower capitalized interest during construction. The 1997 increase was due to increased average debt levels.

Change in Net Income of Affiliates increased \$35 in 1998 and decreased \$6 in 1997. The 1998 increase reflects increased equity income of \$78 from SBC's investment in Teléfonos de México, S.A. de C.V. (Telmex), Mexico's national telecommunications company, SBC's May 1997 investment in Telkom and wireless operations. Also contributing to the increase were sales resulting from reduced involvement in Tele-TV. These increases were partially offset by a reduction of \$53 in contributions from investments in Switzerland, France and Israel, primarily from expenditures on long distance and wireless in Switzerland and long distance in France and Israel. The 1997 decrease reflects decreased equity in net income of Telmex. This lower income resulted from the change in functional currency used by SBC to record its interest in Telmex from the peso to the U.S. dollar beginning in 1997 and reduced ownership percentage after the sale of Telmex L. Results also reflect preoperating expenses of \$32 in international investments, including long distance in Switzerland and Israel and cellular communications in France and Israel. These decreases were mainly offset by equity in net income of \$58 from Telkom and \$27 in lower losses from Tele-TV. Earnings from foreign affiliates will continue to be sensitive to exchange rate changes in the value of the local currencies. SBC's foreign investments are accounted for under U.S. generally accepted accounting principles,

which include adjustments for the purchase method of accounting and exclude certain adjustments required for local reporting in specific countries, such as inflation adjustments.

Other Income (Expense) – Net for 1998 and 1997 includes amounts that SBC management normalized for reviewing results. Normalizing amounts for 1998 include \$358 in gains on the sale of non-core businesses, primarily the required disposition of SBC's interest in MTN and the sale of SBC Media Ventures, Inc., pending from the prior year. Amounts for 1997 reflect gains of \$54 from the sale of SBC's interests in Bellcore and \$32 in second quarter charges related to SBC's strategic initiatives, primarily writeoffs of nonoperating plant. Absent these items, other income (expense) for 1998, 1997 and 1996 was \$(113), \$(100) and \$(75).

During 1998, several offsetting transactions impacted other income and expense contributing to the normalized increase of net other expense of \$13. SBC recognized other expense of \$237 related to an impairment of an international investment and investments in certain wireless technologies, primarily wireless video. Also increasing other expense were higher minority interest, lower interest income and call premiums and unamortized discounts on early retirement of debt at SWBell that totaled \$67 more than the previous year. Offsetting these decreases were other income related to a special dividend of \$158 received from a software affiliate and gains of \$127 recognized on the sales and the charitable contribution of SBC's available-for-sale investment in Telewest Communications plc (see Note 7 of Notes to Consolidated Financial Statements for further discussion of the gains). Movement in the market value of Telmex L shares requires a market valuation adjustment on certain SBC debt redeemable either in cash or Telmex L shares. Additionally, Telmex under their repurchase program from time to time repurchases enough shares in the market that SBC is required to sell part of its Telmex L share holdings to Telmex to remain under 10% ownership of Telmex. The net of these activities contributed \$90 more to other income than in 1997. Also affecting comparisons with 1997 was approximately \$64 in royalties and gains recognized in 1997.

During 1997, there were also several offsetting transactions contributing to the normalized increase in net other expense of \$25. Higher minority interest, including distributions paid on an additional \$500 of Trust Originated Preferred Securities (TOPRS) sold by PAC in June 1996, and lower interest income resulted in \$43 more net expense than in 1996. The net activity related to market movement on Telmex L shares increased other expense by \$47 more than in 1996. Partially offsetting these net other expenses were royalty payments associated with software developed by an affiliate and other investment gains totaling \$64.

Income Taxes for 1998 include taxes related to the sale of certain non-core businesses discussed in other income (expense) – net and tax benefits associated with merger integration initiatives relating to SNET. Income taxes for 1997 reflect the tax effect of charges for strategic initiatives resulting from SBC's comprehensive review of operations and the impact of several regulatory rulings. Income taxes for 1997 also included taxes on the first quarter pension settlement gain discussed in operations and support. The net effective tax rate on these items was lower

result of non-deductible items included in the charge and valuation adjustments to certain deferred tax assets which may be utilized due to restrictions associated with the merger. Including these items, income taxes for 1998 and 1997 would have been \$2,332 and \$1,951. Income taxes for 1998 were higher primarily to higher income before income taxes. Income taxes for 1997, excluding the non-recurring items, were slightly higher than income taxes for 1996 of \$2,070.

Extraordinary Loss In 1998, SBC recorded an extraordinary loss of \$60 related to the refinancing of \$684 of long-term debt of PacBell.

Cumulative Effect of Accounting Change As discussed in Note 1 of Notes to Consolidated Financial Statements, SNET Information Services, Inc. and PB Directory changed their methods of recognizing directory publishing revenues and related expenses effective January 1, 1998 and January 1, 1996, respectively. The cumulative after-tax effect of applying the new method to prior years for SNET Information Services, Inc. was recognized as of January 1, 1998 as a one-time, non-cash gain applicable to continuing operations of \$15, or \$0.01 per share. The gain is net of deferred taxes of \$11. The one-time gain recognized as of January 1, 1996 for PB Directory was \$90, net of deferred taxes of \$53, or \$0.05 per share. Management believes the change to the issue basis method is preferable because it is a method generally followed in the publishing industry, including SWBYP, and better reflects the operating activity of these businesses. These accounting changes are not expected to have a significant effect on net income in future periods.

RATING ENVIRONMENT AND TRENDS OF THE BUSINESS

Regulatory Environment

Overview

The telecommunications industry is in a period of dynamic transition from a tightly regulated industry overseen by multiple regulatory bodies to a market-driven industry monitored by state and federal agencies. The Telephone Companies' wireline telecommunications operations remain subject to regulation by the eight state regulatory commissions for intrastate services and by the FCC for interstate services.

Consolidation of companies is occurring within the marketplace for local telephone service and across other telecommunications services, such as long distance, cellular, cable television, Internet and other data transmission services. Companies operating in some of these markets are also expanding into others, such as the provision of local service by long distance companies. Additionally, new technologies are also affecting the way people view and use communications services. The telecommunications industry is also changing internationally, as government-owned telephone monopolies are being privatized in many countries and competitive entrants are being authorized. U.S.-controlled companies may acquire or form joint venture, joint venture or strategic relationships with these newly privatized companies or their new competitors involving all or all of the range of telecommunications services.

Foreign-controlled companies also may acquire or form such relationships with U.S. companies.

SBC is aggressively representing its interests before federal and state regulatory bodies, courts, Congress and state legislatures. SBC will continue to evaluate the increasingly competitive nature of its business, and develop appropriate competitive, legislative and regulatory strategies.

Wireline

Federal Regulation

Through affiliates, SBC offers landline interLATA long distance services to customers in selected areas outside the Telephone Companies' operating areas. Further, SBC offers interLATA long distance services to customers in Connecticut through SNET America, Inc. (SAI). Under the Telecommunications Act of 1996 (Telecom Act), before being permitted to offer landline interLATA long distance service in any state within the regulated operating areas of SWBell, PacBell and Nevada Bell, SBC must apply for and obtain state-specific approval from the FCC. The FCC's approval, which involves consultation with the United States Department of Justice and the appropriate state commission, requires favorable determinations that certain of the Telephone Companies have entered into interconnection agreement(s) that satisfy a 14-point "competitive checklist" with predominantly facilities-based carrier(s) that serve residential and business customers or, alternatively, that certain of the Telephone Companies have a statement of terms and conditions effective in that state under which they offer the "competitive checklist" items. The FCC must also make favorable public interest and structural separation determinations in connection with each application. See "State Regulation" for status of the state applications.

In December 1997, the United States District Court for the Northern District of Texas ruled that parts of the Telecom Act were unconstitutional on the grounds that they improperly discriminate against certain subsidiaries of SBC by imposing restrictions that prohibit certain of the Telephone Companies by name from offering interLATA long distance and other services that other Local Exchange Carriers (LECs) are free to provide. In September 1998, the United States Court of Appeals for the Fifth Circuit (5th Circuit) reversed this decision and ruled that the challenged provisions of the Telecom Act were constitutional. In January 1999, the United States Supreme Court (Supreme Court) declined to hear an appeal of the 5th Circuit's decision.

Interconnection In August 1996, the FCC issued rules by which competitors could connect with LECs' networks, including those of the Telephone Companies. Among other things, the rules addressed unbundling of network elements, pricing for interconnection and unbundled elements, and resale of retail telecommunications services. The FCC rules were appealed by numerous parties, including SBC.

In July 1997, the United States Court of Appeals for the Eighth Circuit (8th Circuit) held that the FCC did not have the authority to promulgate rules related to the pricing of local intrastate telecommunications and that its rules in that regard were invalid.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (CONTINUED)

Dollars in millions except per share amounts

The 8th Circuit also overturned the FCC's rules which allowed competitors to "pick and choose" among the terms and conditions of approved interconnection agreements. In October 1997, the 8th Circuit issued a subsequent decision clarifying that the Telecom Act does not require the incumbent LECs to deliver network elements to competitors in anything other than completely unbundled form.

In September 1997, a number of parties, including SBC, filed petitions to enforce the July 1997 ruling of the 8th Circuit that the right to set local exchange prices, including the pricing methodology used, is reserved exclusively to the states. The petitions responded to the FCC's rejection of Ameritech Corporation's interLATA long distance application in Michigan, in which the FCC stated it intended to apply its own pricing standards to Regional Holding Company (RHC) interLATA applications. The petitioners asserted the FCC was violating state authority. On January 22, 1998, the 8th Circuit ordered the FCC to abide by the July 1997 ruling and reiterated that the FCC cannot use interLATA long distance applications made by SBC and other RHC wireline subsidiaries wishing to provide interLATA long distance to attempt to reimpose the pricing standards ruled invalid in July 1997 by the 8th Circuit.

In January 1999, the Supreme Court ruled on an appeal of the 8th Circuit's order. The ruling held that the Telecom Act gives the FCC the authority to set guidelines for states to follow in setting prices under the Telecom Act, and reinstated the FCC rules allowing those seeking to interconnect to "pick and choose" specific provisions from previous interconnection agreements. Because the 8th Circuit's decision did not address the lawfulness of the content of the FCC pricing guidelines, the Supreme Court remanded that issue to the 8th Circuit for further consideration. The ruling also upheld FCC rules forbidding incumbent LECs from separating already combined network elements, but remanded back to the FCC its determination of which network elements must be made available. The Supreme Court also held that, before the FCC could require telecommunications carriers to make a particular network element available to requesting carriers, the FCC must first consider as to proprietary elements, whether access to the elements was necessary and whether the failure to provide access to a particular element would impair the requesting carrier's ability to provide the service it seeks to offer. The effect of this ruling on the telecommunications industry cannot be determined at this time.

Reciprocal Compensation Reciprocal compensation is billed to SBC's subsidiaries by Competitive Local Exchange Carriers (CLECs) for the termination of certain local exchange traffic to CLEC customers. SBC believes that under the Telecom

Act the state commissions have authority to order reciprocal compensation for intrastate or local traffic, while only the FCC has authority over interstate and interexchange traffic. SBC believes most Internet traffic is interexchange and interstate. Several state commissions, including the CPUC in an October 1998 order, have taken the position that Internet communications is intrastate or local traffic and ordered SBC to pay reciprocal compensation to certain CLECs pursuant to then existing contracts. State commissions in the five-state area other than Kansas have also issued orders finding that SBC is required to pay reciprocal compensation to certain CLECs. In June 1998, a U.S. District Court in Texas affirmed the Texas Public Utility Commission's (TPUC) determination and upheld payment of reciprocal compensation, holding that an Internet call is comprised of two portions, and that the TPUC has jurisdiction over the local portion of the traffic and the FCC over the Internet component. Similar decisions regarding Internet traffic have been made by other state commissions. SBC has sought review or reconsideration of these cases.

The question whether Internet communications should be classified as local/intrastate or interstate traffic for reciprocal compensation purposes is the subject of a pending FCC proceeding and the FCC is expected to rule on this issue in the near future. SBC's subsidiaries have been recording amounts sought by certain CLECs for the termination of Internet traffic to Internet Service Providers.

Asymmetrical Digital Subscriber Line (ADSL) is a high-speed data service principally used for Internet access. In June 1998, SBC filed with the FCC a petition requesting relief for ADSL from pricing, unbundling and resale regulatory restrictions. The FCC denied the petition and declared that incumbents, such as the Telephone Companies, must offer such services for resale at a discount and must offer unbundled access to the equipment used in ADSL provisioning to the extent possible. SBC has filed with the FCC a petition for reconsideration of this order. The FCC sought comments on offering the incumbent LECs the option of providing deregulated advanced services through an affiliate with appropriate safeguards.

The effects of the FCC decisions on the above topics are dependent on many factors including, but not limited to, the ultimate resolution of the pending appeals; the number and nature of competitors requesting interconnection, unbundling or resale; and the results of the state regulatory commissions' review and handling of related matters within their jurisdictions. Accordingly, SBC is not able to assess the impact of the FCC orders and proposed rulemaking at this time.

Rate Regulation

The following provides an overview of state regulation in the eight states in which the Telephone Companies operated at December 31, 1998.

State	Alternative Regulation ¹	Dialing Parity ²	Number of Signed Wireline Interconnection Agreements ³	Long Distance Application Status
Arkansas	Yes, indefinite	Presently not required prior to long distance authorization	54	Decision expected in 1999 ⁴
California	Yes, ends 1/2002	Proceeding pending	66	Decision expected in 1999 ⁴
Connecticut	Yes, ends 2/2001	Dialing parity exists	13	Long distance service provided by the retail entity ⁵
Illinois	Yes, indefinite	Commission ordered implementation by 2/1999; state statute presently prohibits requirement before long distance authorization	55	Decision expected in 1999 ⁴
Iowa	Yes, indefinite	Proceeding pending	61	Decision expected in 1999 ⁴
Kansas	Yes, ends 12/2002	Presently not required prior to long distance approval; proceeding pending	19	No activity
Oklahoma	Yes, ends 2/2001	Ordered by 3/1999	52	Decision expected in 1999 ⁴
Texas	Yes, ends 9/2001	TPUC deferred its decision pending FCC issuance of new dialing parity rules; state statute presently prohibits requirement before long distance authorization	175	Decision expected in 1999 ⁴

Other significant notes:

¹ Alternative regulation is other than rate of return regulation.

² In January 1999 decision, the Supreme Court ruled that the FCC had the authority to issue rules implementing intrastate and intraLATA dialing parity. Several interexchange carriers arguing in pending state proceedings that the ruling requires immediate implementation of dialing parity, preempting state requirements. The Telephone Companies take the position that dialing parity requirements should be consistent with state laws and that they should not be required to provide intraLATA toll dialing parity prior to receiving authorization to provide interLATA long distance services. In states where dialing parity exists, customers are able to subscribe to an intraLATA toll carrier just as they do for long distance services.

³ Interconnection agreements are signed with CLECs for the purpose of allowing the CLECs to exchange local calls with the incumbent telephone company.

⁴ Pending determination by state commissions on the Telephone Companies' compliance with the 14-point competitive checklist. FCC approval is required subsequent to state determination.

⁵ Tel is restricted from providing interLATA long distance service in any of the other Telephone Companies' operating regions.

AGEMENT'S DISCUSSION AND ANALYSIS OF NCIAL CONDITION AND RESULTS OF OPERATIONS (CONTINUED)

millions except per share amounts

owing presents highlights of certain regulatory
oments.

California In October 1998, the CPUC issued a decision modifying the current regulatory framework for PacBell effective January 1, 1999. The decision adopted PacBell's proposal that the price cap on basic residential rates be continued for three more years through 2001, with the CPUC retaining the ability to adjust telephone rates. The decision suspended earnings sharing, rate of return reviews and the use of earnings caps and floors through 2001. In addition, the decision adopted PacBell's proposal to eliminate depreciation reviews and granted PacBell the right to set its own depreciation rates and methodology. The decision continued the suspension of the productivity factor adjustment. In addition, the CPUC decision eliminated most exogenous cost adjustments, including the recovery of costs related to a 1993 accounting change for postretirement benefits other than pensions. Management currently expects the items embodied within the new regulatory framework will have the net effect of reducing annual revenue by approximately \$100 from 1999 through 2004.

In July 1998, the CPUC issued a rate rebalancing decision pursuant to its 1996 order on universal service. The CPUC's decision implemented prospectively beginning September 1, 1998 a reduction of PacBell's non-basic local service, network access and distance service revenues by \$305 annually to offset the approximately \$305 annually that PacBell expects to receive from the FCC. Beginning in February 1997, PacBell, and all other California telecommunications carriers, began collecting funds for universal service surcharges consistent with the CPUC's 1996 decision. The CPUC has yet to decide on the specific mechanism to be used to ensure the distribution of funds collected by PacBell and other carriers from February 1997 through August 1998 is approximately neutral.

Connecticut In January 1997, SNET submitted to the Connecticut Department of Public Utility Control (DPUC) its proposal for corporate restructuring. The proposal recommended that SNET functions be split: ownership and maintenance of switching and transmission network facilities, i.e., all wholesale services, would remain in the telephone company, SNETel, and long distance functions would go to SAI, which was the long distance carrier. Both would be wholly-owned by SNET. In June 1997, the DPUC granted SNET permission to restructure its telephony operations, with several DPUC-imposed modifications. Under the plan, all retail operations (retail marketing and long distance service) have been transferred to SAI, and SAI will be regulated by the regulators like all other CLECs. SNET local service customers will choose their provider via a balloting process, as has been scheduled for September 1999. All wholesale services and the network infrastructure will remain with SNETel, which will be restricted to meeting the needs of CLECs, including other wholesale customers. SAI can buy its wholesale services from SNETel or any other wholesale provider. SAI has been providing interstate and international long distance service since

1993, and received certification to provide local service and intrastate toll in Connecticut in 1997.

Missouri Effective September 26, 1997, the Missouri Public Service Commission (MPSC) determined that SWBell is subject to price cap regulation. Prices in effect as of December 31, 1996 are the initial maximum allowable rates for services and cannot be adjusted until January 1, 2000 for basic and access services and on January 1, 1999 for non-basic services. On an exchange basis where a competitor began operations, the freeze on maximum allowable rates for non-basic services was removed. After January 1, 2000, caps for basic and access services may be adjusted based on one of two government indices. After January 1, 1999, caps for non-basic services may be increased up to 8% per year. In an exchange where competition for basic local service exists for five years, services will be declared competitive and subject to market pricing unless the MPSC finds effective competition does not exist. The Office of Public Counsel and MCI WorldCom, Inc. (MCI WorldCom) sought judicial review of the MPSC determination and in May 1998 the state circuit court affirmed the MPSC decision.

Texas Under the Public Utility Regulatory Act, which became effective in May 1995 (PURA), SWBell elected to move from rate of return regulation to price regulation with elimination of earnings sharing. Basic local service rates are capped at existing levels for four years following the election, i.e., until September 1999. The TPUC is prohibited from reducing switched access rates charged by LECs to interexchange carriers while rates are capped.

LECs electing price regulation are committed to network and infrastructure improvement goals, including expansion of digital switching and advanced high-speed services to qualifying public institutions, such as schools, libraries and hospitals, requesting the services. PURA also established an infrastructure grant fund for use by public institutions in upgrading their communications and computer technology. The 1997 Texas legislative session changed the funding for this infrastructure grant fund from annually collecting \$150 for ten years to a fixed percentage (1.25%) applied to all telecommunications providers' sales taxable revenues. The law also provides a cap of \$1,500 for the life of the fund. SWBell's annual payments were approximately \$36 in 1997 and \$56 in 1998. Due to the industry's growth in revenues, the fund should be completely funded before the original ten years.

PURA establishes local exchange competition by allowing companies that desire to provide local exchange services to apply for certification by the TPUC, subject to certain buildout requirements, resale restrictions and minimum service requirements. PURA provides that SWBell will remain the default carrier of "1 plus" intraLATA long distance traffic in its territory until SWBell is allowed to carry interLATA long distance. In 1996, MCI WorldCom and AT&T Corp. (AT&T) sued the state of Texas, alleging that PURA violates the Texas state constitution, and claiming that PURA establishes anticompetitive barriers designed to prevent MCI WorldCom, AT&T and Sprint Corporation (Sprint) from providing local services within Texas. The FCC, also in response to petitions filed by AT&T and MCI WorldCom, preempted and

ided portions of PURA that required certain buildout requirements. Furthermore, the FCC also preempted rules that excluded competitors from entering markets with fewer than 31,000 access lines and which made resale of Centrex phone services subject to a limited property restriction. AT&T and MCI WorldCom have dismissed their suits regarding this matter. In October 1997, SWBell filed with the FCC a petition for reconsideration regarding the preemption of the property restriction for Centrex services. This issue is still pending before the FCC.

Competition Outline

Competition continues to increase for telecommunications and information services. Recent changes in legislation and regulation have increased the opportunities for alternative service providers offering telecommunications services. Technological advances have expanded the types and uses of services and products available. As a result, SBC faces increasing competition as well as new opportunities in significant portions of its business.

Recent state legislative and regulatory developments allow increased competition for local exchange services. Companies wishing to provide competitive local service have filed numerous applications with each of the state commissions throughout the Telephone Companies' regulated operating areas, and the commissions of each state have been approving these applications since late 1995. Under the Telecom Act, companies seeking to interconnect to the Telephone Companies' networks and change local calls must enter into interconnection agreements with the Telephone Companies. These agreements are then subject to approval by the appropriate state commission. SBC has reached approximately 495 interconnection and resale agreements with competitive local service providers, and most have been approved by the relevant state commission. AT&T, MCI WorldCom and other competitors are reselling SBC local exchange services, and as of December 31, 1998, there were approximately 800,000 SBC access lines supporting services of resale competitors throughout the Telephone Companies' regulated operating areas, most of them in Texas and California. Many competitors have placed facilities in service and have begun advertising campaigns and offering services. SBC also is granted facilities-based and resale operating authority in certain territories served by other LECs and now offers local exchange service offerings to these areas.

In California, the CPUC authorized facilities-based local services competition effective January 1996 and resale competition effective March 1996. While the CPUC has established local competition rules and interim prices, several issues still remain to be resolved, including final rates for resale and LEC provisioning and pricing of certain network elements to competitors. SBC has incurred substantial costs implementing local competition and number portability. In November 1998, the CPUC issued a decision allowing PacBell to begin recovery of local competition implementation costs.

In Texas, the TPUC set rates in December 1997 that SWBell may charge for access and interconnection to its telephone

network. The TPUC decision sets pricing for dozens of network components and completes a consolidated arbitration between SWBell and six of its wholesale customers, including AT&T and MCI WorldCom.

In Missouri, the MPSC issued orders on a consolidated arbitration hearing with AT&T and MCI WorldCom and on selected items with Metropolitan Fiber Systems. Among other terms, the orders established discount rates for resale of SWBell services and prices for unbundled network elements. SWBell appealed the interconnection agreement resulting from the first arbitration proceeding on November 5, 1997; a decision is still pending. A second arbitration process to address other interconnection issues with AT&T has concluded, and the MPSC ordered that a conforming interconnection agreement be filed. SWBell appealed this order in April 1998.

The Telephone Companies expect increased competitive pressure in 1999 and beyond from multiple providers in various markets, including facilities-based CLECs, interexchange carriers and resellers. At this time, management is unable to assess the effect of competition on the industry as a whole, or financially on SBC, but expects both losses of market share in local service and gains resulting from new business initiatives, vertical services and new service areas. Competition also continues to intensify in the Telephone Companies' intraLATA long distance markets. For example, it is estimated that providers other than PacBell now serve more than half of the business intraLATA long distance customers in PacBell's service areas. In addition, if intraLATA toll dialing parity is required, competition in intraLATA long distance markets is expected to increase.

In the international arena, Telmex was granted a concession in 1990, which expired in August 1996, as the sole provider of long distance services in Mexico. Several large competitors have received licenses to compete with Telmex and have begun operations. As of December 31, 1998, Telmex has retained approximately 75% of its long distance customers. Telmex's share of international long distance traffic is expected to decline significantly when the proportional return mechanism, which guarantees Telmex the same percentage of incoming traffic as outgoing traffic, expires at the end of 1999. Aggressive local competition is expected in 1999, primarily in the business segment.

Wireless

In 1993, the FCC adopted an order allocating radio spectrum and licenses for PCS. PCS utilizes wireless telecommunications digital technology at a higher frequency radio spectrum than cellular. Like cellular, it is designed to permit access to a variety of communications services regardless of subscriber location. In an FCC auction, which concluded in March 1995, PCS licenses were awarded in 51 major markets. SBC or affiliates acquired PCS licenses in the Major Trading Areas of Los Angeles-San Diego, California; San Francisco-Oakland-San Jose, California; Memphis, Tennessee; Little Rock, Arkansas; and Tulsa, Oklahoma. The California licenses cover substantially all of California and Nevada. SBC is currently operational in all of its major California-Nevada markets and Tulsa, Oklahoma. During 1996, SBC received several

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Dollars in millions except per share amounts

AT&T cellular networks in Arkansas in exchange for SBC's PCS licenses in Memphis, Tennessee, and Little Rock, Arkansas, and other consideration.

PCS service was formally launched in all the major California and Nevada markets at different times throughout 1997, with the buildout to other areas continuing. The network incorporates the Global System for Mobile Communications standard, which is widely used in Europe. PBMS is selling PCS as an off-the-shelf product in retail stores, through exclusive agents and in company-owned stores across California and Nevada. Significant competition exists, particularly from the two established cellular companies in each market.

In an FCC auction that concluded in January 1997, SBC acquired eight additional PCS licenses for Basic Trading Areas that are within the five-state area.

SBC also has state-approved interconnection agreements to receive reciprocal compensation from interexchange carriers and other local service providers accessing its wireless networks in all states where it provides wireless services.

Companies that were granted licenses in areas where SBC also provides wireless service include subsidiaries and affiliates of AT&T, Sprint and other RHCs. Significant competition from PCS providers exists in SBC's major markets. Competition has been based upon both price and service packaging, such as unlimited calling plans, and has contributed to SBC's decline in average subscriber revenue per wireless customer.

Under the Telecom Act of 1996, SBC may offer interLATA long distance over its wireless network both inside and outside the regulated operating areas. SBC has entered the wireless long distance markets, and offers wireless long distance service in all of its wireless service areas.

Directory

SWBYP, PB Directory and SNET Information Services, Inc. face competition from over 100 publishers of printed directories in their operating areas. Direct and indirect competition also exists from other advertising media, including newspapers, radio, television and direct mail providers, as well as from directories offered over the Internet.

OTHER BUSINESS MATTERS

New Accounting Standards In June 1998, the Financial Accounting Standards Board issued Statement No. 133, "Accounting for Derivative Instruments and Hedging Activities" (FAS 133), which will require all derivatives to be recorded on the balance sheet at fair value, and will require changes in the fair value of the derivatives to be recorded in net income or comprehensive income. FAS 133 must be adopted for years beginning after June 15, 1999, with earlier adoption permitted. Management is currently evaluating the impact of the change in accounting required by FAS 133, but is not able to quantify the effect at this time.

See Note 1 of Notes to Consolidated Financial Statements for a discussion of the new accounting standard on software costs.

Wireless Acquisition See Note 17 of Notes to Consolidated Financial Statements for a discussion of the acquisition of Comcast Cellular Corporation.

Long Distance Agreement On February 8, 1999, SBC announced an agreement with Williams Communications (Williams), a subsidiary of Williams Cos., Inc., under which Williams will serve as SBC's long distance provider. As part of this agreement, SBC plans to acquire 10% of the common stock of Williams. This investment will occur simultaneously with an initial public offering of common stock by Williams, scheduled for the second quarter of 1999.

Merger See Note 3 of Notes to Consolidated Financial Statements for a discussion of the merger agreement with Ameritech Corporation.

SBC's Year 2000 Project SBC operates numerous date-sensitive computer applications and systems throughout its businesses. Since 1996, SBC has been working to upgrade its networks and computer systems to properly recognize the Year 2000 and continue to process critical operational and financial information. Companywide teams are in place to address and resolve Year 2000 issues and processes are under way to evaluate and manage the risks and costs associated with preparing SBC's date-impacted systems and networks for the new millennium.

SBC is using a four-step methodology to address the issue. The methodology consists of inventory and assessment, hardware and software fixes, testing and deployment. SBC measures its progress by tracking the number of completed hardware and software applications, network components, personal computers and building facilities that can correctly process Year 2000 dates.

Inventory and assessment is estimated to require 20% of the overall effort and includes the identification of items (i.e., line-by-line review of software code, switch generics, vendor products, etc.) that could be impacted by the Year 2000 and the determination of the work effort required to ensure compliance. The inventory and assessment phase has been completed. This process involved reviewing over 340 million lines of software code, 1,200 central office switches, 7,000 company buildings, conducting an inventory and assessment of 117,000 personal computers, and coordinating with 1,300 suppliers of 14,000 products to obtain adequate assurance they will be Year 2000 compliant or determine and address any appropriate contingency plans or backup systems.

Making the hardware and software fixes is the second phase of the process and is estimated to require 25% of the overall effort. This activity involves modifying program code, upgrading computer software and upgrading or replacing hardware. As of December 31, 1998, the hardware and software fixes were substantially complete.

Testing involves ensuring that hardware and software fixes will work properly in 1999 and beyond and occurs both before and after deployment. Testing is estimated to comprise 45% of the overall effort. Testing began early in 1998, is more than two-thirds complete, and will continue through 1999 to allow for thorough testing before the Year 2000. Contingency plans and backup systems are currently being written.

Deployment involves placing the "fixed" systems into a live environment to ensure they are working properly. Additional testing is done after deployment as well. Deployment is estimated to require 10% of the overall effort. More than half of the deployment phase was completed as of December 31, 1998. SBC expects to spend approximately \$265 on the entire project, with approximately \$140 spent through December 31, 1998. As testing and hardware and software fixes are estimated to require most of the expenditures, there is not a strict correlation between expenditures and project completion. The activities involved in SBC's Year 2000 project necessarily require estimates and projections, as described above, of activities and resources that will be required in the future. These estimates and projections could change as work progresses on the project.

LIQUIDITY AND CAPITAL RESOURCES

SBC had \$460 of cash and cash equivalents available as of December 31, 1998. Commercial paper borrowings as of December 31, 1998 totaled \$1,044. SBC has entered into agreements with several banks for lines of credit totaling \$500, all of which may be used to support commercial paper borrowings (see Note 10 of Notes to Consolidated Financial Statements). SBC had no borrowings outstanding under these lines of credit as of December 31, 1998.

Cash from Operating Activities

During 1998, as in 1997 and 1996, SBC's primary source of funds continued to be cash generated from operations, as shown in Consolidated Statements of Cash Flows. Net cash provided by operating activities exceeded SBC's construction and capital expenditures during 1998, as in 1997 and 1996; this excess is referred to as free cash flow, a supplemental measure of liquidity. SBC generated free cash flow of \$2,454, \$1,366 and \$2,046 in 1998, 1997 and 1996.

Cash from Investing Activities

To provide high-quality communications services to its customers, SBC, particularly its Wireline and Wireless operations, must make significant investments in property, plant and equipment. The amount of capital investment is influenced by demand for services and products, continued growth and regulatory requirements.

SBC's capital expenditures totaled \$5,927, \$6,230 and \$5,855 in 1998, 1997 and 1996. Capital expenditures in the Wireline segment were relatively unchanged in 1998 compared to 1997. Wireline segment's capital expenditures increased 12% in 1998 due primarily to demand-related growth, network upgrades, customer-contracted requirements, ISDN projects and SWBell's regulatory commitments. The Wireless segment's capital expenditures decreased 17% and 23% in 1998 and 1997 due primarily to expenditures for initial buildout of the PCS network and conversion of SBC's largest cellular markets to digital during 1997 and 1996.

In 1999, management expects total capital spending to be between \$6,400 and \$6,800. Capital expenditures in 1999 will

relate primarily to the continued evolution of the Telephone Companies' networks, including amounts agreed to under regulation plans at SWBell, and continued buildout of Mobile Systems' markets and PBMS. SBC expects to fund ongoing capital expenditures with cash provided by operations.

SWBell has substantially completed the additional network and infrastructure improvements to be made over periods ranging through 2001 to satisfy regulatory commitments.

Cash from Financing Activities

Dividends declared by the Board of Directors of SBC were \$0.935 per share in 1998, \$0.895 per share in 1997, and \$0.86 per share in 1996. These per share amounts do not include dividends declared and paid by PAC and SNET prior to their respective mergers. The total dividends paid by SBC, PAC and SNET were \$1,836 in 1998, \$1,755 in 1997 and \$1,795 in 1996. Pursuant to the terms of the merger agreement, PAC reduced its dividend beginning in the second quarter of 1996. The lower second and third quarter dividends paid in 1996 improved 1996 cash flow by approximately \$195. SBC's dividend policy considers both the expectations and requirements of shareowners, internal requirements of SBC and long-term growth opportunities.

In February 1998, SBC called \$630 of long-term debt for retirement, including \$175 at PacBell and \$425 at SWBell, and issued approximately \$200 in debentures at PacBell due February 2008 and approximately \$200 in debentures at SWBell due March 2048. In September 1998, SBC called \$175 of long-term debt for retirement, all at SWBell. In October 1998, PacBell repurchased \$684 of debentures.

Total debt increased during 1997 due primarily to the issuance of medium-term notes and debentures at the Telephone Companies and debt redeemable either in cash or Telmex L shares.

During 1996 PAC issued \$1,000 of TOPrS, \$500 at 7.56% in January 1996 and \$500 at 8.5% in June 1996 (see Note 11 of Notes to Consolidated Financial Statements). The proceeds were used to retire outstanding short-term debt, primarily commercial paper that had increased significantly during 1995.

SBC's total capital consists of debt (long-term debt and debt maturing within one year), TOPrS and shareowners' equity. Total capital increased \$108 in 1998 and \$1,056 in 1997. The increase in 1998 was due to 1998 earnings, partially offset by lower debt levels. The increase in 1997 was primarily due to higher debt levels and 1997 earnings.

SBC's debt ratio was 48.9%, 57.1% and 56.8% at December 31, 1998, 1997 and 1996. The debt ratio is affected by the same factors that affect total capital.

MARKET RISK

SBC's capital costs are directly linked to financial and business risks. SBC seeks to manage the potential negative effects from market volatility and market risk. Certain financial instruments used to obtain capital are subject to market risks from fluctuations in market interest rates. The majority of SBC's financial instruments are medium- and long-term fixed rate notes and debentures. Fluctuations in market interest rates can lead to

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significant fluctuations in the fair value of these notes and debentures. It is the policy of SBC to manage its debt structure and foreign exchange exposure in order to manage capital costs, control financial risks and maintain financial flexibility over the long term. Where appropriate, SBC will take actions to limit the negative effect of interest and foreign exchange rates, liquidity and counterparty risks on shareowner value.

Quantitative Information about Market Risk

Foreign Exchange Risk Sensitivity Analysis

	U.S. Dollar Value of Net Foreign Exchange Contracts	Net Underlying Foreign Currency Transaction Exposures
December 31, 1998		
Swiss Franc	\$ 24	\$ 24
Japanese Yen	142	142
French Franc	37	37
Chilean Peso	32	32
Total Exposure	\$235	\$235

Note: There is no net exposed long/short currency position and no foreign exchange loss from a 10% depreciation of the U.S. dollar.

The preceding table describes the effects of a change in the value of the Swiss franc, Japanese yen, Chilean peso and French franc given a hypothetical 10% depreciation of the U.S. dollar. Since the identified exposure is fully covered with forward contracts, changes in the value of the U.S. dollar which affect the value of the underlying foreign currency commitment are fully offset by changes in the value of the foreign currency contract. If the underlying currency transaction exposure changed, the resulting mismatch would expose the company to currency risk of the foreign exchange contract. For this reason, all contracts are related to firm commitments and matched by maturity and currency.

Equity Price Risk Sensitivity Analysis

SBC is exposed to equity price risk related to the change in the price of AirTouch Communications, Inc. (AirTouch) common stock related to the settlement of employee stock options. At December 31, 1998, the net appreciated value of the equity swap contract entered in 1994 was \$26, while the value of the underlying employee stock option exposures for AirTouch common stock was \$25, leaving a net exposed long equity position of \$1. If the value of AirTouch common stock increased by 26%, the net exposed long equity position would increase by \$1 to \$2. Since January 1, 1995, the average yearly share price of AirTouch common stock has increased 26%. The equity swap contract expires April 1999 and the last option grant expires January 2003. (See Note 11 of Notes to Consolidated Financial Statements.) In February 1999, management evaluated the exposure to future appreciation of AirTouch common stock and the benefit to "unwinding" the swap. As a result, SBC began exiting the equity swap contract, receiving cash for the appreciated value of the contract and recognizing a minimal gain. Once exited, SBC will record in other income (expense) – net future changes in the value of the underlying employee stock option exposure. If the value of AirTouch common stock were to increase by an

additional 26% from mid-February 1999, SBC would record additional expense of approximately \$8.

Interest Rate Sensitivity

The principal amount by expected maturity, average interest rate and fair value of SBC's liabilities that are exposed to interest rate risk are described in Notes 10 and 11 of Notes to Consolidated Financial Statements. Following are SBC's interest rate derivatives subject to interest rate risk (none of these derivatives mature in 2000 through 2003):

	Maturity		Fair Value	
	1999	After 2003	Total	12/31/98
Interest Rate Derivatives				
Interest Rate Swaps				
Receive Variable/Pay Fixed				
Notional Amount ¹	\$50	—	\$50	\$(1)
Fixed Rate Payable	7.2%	—		
Weighted Average Variable				
Rate Receivable ²	5.1%	—		
Receive Variable/Pay Fixed				
Notional Amount ³	—	\$13	\$13	\$(1)
Fixed Rate Payable	6.7%	6.7%		
Weighted Average Variable				
Rate Receivable ⁴	5.0%	5.5%		

¹Receive Variable/Pay Fixed amount is offset equally by \$50 in Variable Rate Debt maturing in 1999 with an average interest rate of 4.5% and a fair value of \$50.

²Weighted Average Variable Rate Receivable based on current and the implied forward rates in the yield curve at the reporting date for Constant Maturity Treasury minus 20 basis points.

³Receive Variable/Pay Fixed amount offsets \$13 in lease obligation due after 2003 with an average interest rate of 5.8% and a fair value of \$13.

⁴Weighted Average Variable Rate Receivable based on current and the implied forward rates in the yield curve at the reporting date for One Month LIBOR.

As a result of interest rate fluctuations, if SBC were to terminate the contracts, it would be required to pay \$2 to replace the fixed rate flows or "unwind" the interest swaps. SBC does not intend to terminate the \$50 contract as it is linked to the variable rate debt issued by SBC that also matures in 1999.

There has been no material change in the updated market risks since December 31, 1997.

Qualitative Information about Market Risk

Foreign Exchange Risk

From time to time SBC makes investments in operations in foreign countries, is paid dividends, receives proceeds from sales or borrows funds in foreign currency. Before making an investment, or in anticipation of a foreign currency receipt, SBC will often enter into forward foreign exchange contracts. The contracts are used to provide currency at a fixed rate. SBC's policy is to measure the risk of adverse currency fluctuations by calculating the potential dollar losses resulting from changes in exchange rates that have a reasonable probability of occurring. SBC covers the exposure that results from changes that exceed acceptable amounts. SBC does not speculate in foreign exchange markets.

Equity Risk

SBC has exposure to risk of market changes related to its recorded liability for outstanding employee stock options for common stock of AirTouch (spun-off operations). SBC plans to make open market purchases of the stock of spun-off operations to satisfy its obligation for options that are exercised. Off-balance-sheet risk exists to the extent the market price of AirTouch rises in value. As discussed in "Equity Price Risk Sensitivity Analysis" above, SBC evaluated the exposure to future appreciation of AirTouch common stock and is exiting a swap contract related to the options by April 1999.

Interest Rate Risk

SBC issues debt in fixed and floating rate instruments. Interest rate swaps are used for the purpose of controlling interest expense by fixing the interest rate of floating rate debt. When market conditions favor issuing debt in floating rate instruments, and SBC prefers not to take the risk of floating rates, SBC will enter interest rate swap contracts to obtain floating rate payments to service the debt in exchange for paying a fixed rate. SBC does not seek to make a profit from changes in interest rates. SBC manages interest rate sensitivity by measuring potential increases in interest expense that would result from a probable

change in interest rates. When the potential increase in interest expense exceeds an acceptable amount, SBC reduces risk through the issuance of fixed rate instruments and purchasing derivatives.

CAUTIONARY LANGUAGE CONCERNING FORWARD-LOOKING STATEMENTS

Information set forth in this report contains forward-looking statements that are subject to risks and uncertainties. SBC claims the protection of the safe harbor for forward-looking statements provided by the Private Securities Litigation Reform Act of 1995.

The following factors could cause SBC's future results to differ materially from those expressed in the forward-looking statements: (1) adverse economic changes in the markets served by SBC or changes in available technology; (2) the final outcome of various FCC rulemakings and judicial review, if any, of such rulemakings; (3) the final outcome of various state regulatory proceedings in SBC's eight-state area, and judicial review, if any, of such proceedings; and (4) the timing of entry and the extent of competition in the local and intraLATA toll markets in SBC's eight-state area. Readers are cautioned that other factors discussed in this report, although not enumerated here, also could materially impact SBC's future earnings.

CONSOLIDATED STATEMENTS OF INCOME

Dollars in millions except per share amounts

	1998	1997	1996
Operating Revenues			
Landline local service	\$11,100	\$10,334	\$ 9,465
Wireless subscriber	3,783	3,372	2,907
Network access	6,512	6,215	6,203
Long distance service	2,355	2,352	2,523
Directory advertising	2,420	2,280	2,156
Other	2,607	2,128	1,948
Total operating revenues	28,777	26,681	25,202
Operating Expenses			
Operations and support	16,714	17,802	14,510
Depreciation and amortization	5,177	5,301	4,466
Total operating expenses	21,891	23,103	18,976
Operating Income	6,886	3,578	6,226
Other Income (Expense)			
Interest expense	(993)	(1,043)	(901)
Equity in net income of affiliates	236	201	207
Other income (expense) – net	245	(78)	(75)
Total other income (expense)	(512)	(920)	(769)
Income Before Income Taxes, Extraordinary Loss and Cumulative Effect of Accounting Change	6,374	2,658	5,457
Income taxes	2,306	984	2,070
Income Before Extraordinary Loss and Cumulative Effect of Accounting Change	4,068	1,674	3,387
Extraordinary Loss from Early Extinguishment of Debt, net of tax	(60)	—	—
Cumulative Effect of Accounting Change, net of tax	15	—	90
Net Income	\$ 4,023	\$ 1,674	\$ 3,477
Earnings Per Common Share:			
Income Before Extraordinary Loss and Cumulative Effect of Accounting Change	\$ 2.08	\$ 0.86	\$ 1.73
Net Income	\$ 2.06	\$ 0.86	\$ 1.78
Earnings Per Common Share – Assuming Dilution:			
Income Before Extraordinary Loss and Cumulative Effect of Accounting Change	\$ 2.05	\$ 0.85	\$ 1.72
Net Income	\$ 2.03	\$ 0.85	\$ 1.77

The accompanying notes are an integral part of the consolidated financial statements.

NSOLIDATED BALANCE SHEETS

rs in millions except per share amounts

	December 31,	
	1998	1997
Assets		
Current Assets		
Cash and cash equivalents	\$ 460	\$ 410
Short-term cash investments	6	320
Accounts receivable – net of allowances for uncollectibles of \$472 and \$430	5,790	5,344
Prepaid expenses	414	357
Deferred income taxes	489	660
Other current assets	379	426
Total current assets	7,538	7,517
Property, Plant and Equipment – Net	29,920	29,068
Intangible Assets – Net of Accumulated Amortization of \$741 and \$1,047	3,087	3,663
Investments in Equity Affiliates	2,514	2,740
Other Assets	2,007	1,848
Total Assets	\$45,066	\$44,836
Liabilities and Shareowners' Equity		
Current Liabilities		
Accounts payable and accrued liabilities	\$ 1,551	\$ 2,139
Accounts payable and accrued liabilities	7,980	8,330
Dividends payable	458	441
Total current liabilities	9,989	10,910
Long-Term Debt	11,612	13,176
Deferred Credits and Other Noncurrent Liabilities		
Deferred income taxes	1,990	1,569
Employment benefit obligation	5,220	5,200
Deferred investment tax credits	359	431
Other noncurrent liabilities	2,116	2,030
Total deferred credits and other noncurrent liabilities	9,685	9,230
Corporation-obligated mandatorily redeemable preferred securities of subsidiary trusts*	1,000	1,000
Shareowners' Equity		
Preferred shares (\$1 par value, 10,000,000 authorized: none issued)	—	—
Common shares (\$1 par value, 7,000,000,000 authorized: issued 1,987,532,349 at December 31, 1998 and 1,984,141,868 at December 31, 1997)	1,988	992
Capital in excess of par value	9,139	9,966
Retained earnings	3,396	1,204
Guaranteed obligations of employee stock ownership plans (ESOP)	(147)	(219)
Deferred compensation – leveraged ESOP (LESOP)	(82)	(119)
Treasury shares (28,217,018 at December 31, 1998 and 29,741,356 at December 31, 1997, at cost)	(882)	(730)
Accumulated other comprehensive income	(632)	(574)
Total shareowners' equity	12,780	10,520
Total Liabilities and Shareowners' Equity	\$45,066	\$44,836

*Trusts contain assets of \$1,030 in principal amount of the Subordinated Debentures of Pacific Telesis Group. accompanying notes are an integral part of the consolidated financial statements.

NSOLIDATED STATEMENTS OF CASH FLOWS

rs in millions, increase (decrease) in cash and cash equivalents

	1998	1997	1996
Operating Activities			
Income	\$ 4,023	\$ 1,674	\$ 3,477
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	5,177	5,301	4,466
Undistributed earnings from investments in equity affiliates	(56)	(100)	(138)
Provision for uncollectible accounts	513	566	438
Amortization of investment tax credits	(72)	(82)	(82)
Deferred income tax expense	533	239	485
Extraordinary loss, net of tax	60	—	—
Cumulative effect of accounting change, net of tax	(15)	—	(90)
Changes in operating assets and liabilities:			
Accounts receivable	(959)	(902)	(1,097)
Other current assets	(8)	(56)	301
Accounts payable and accrued liabilities	(187)	1,431	591
Other – net	(628)	(475)	(450)
Net adjustments	4,358	5,922	4,424
Cash Provided by Operating Activities	8,381	7,596	7,901
Investing Activities			
Construction and capital expenditures	(5,927)	(6,230)	(5,855)
Investments in affiliates	(85)	(26)	(74)
Acquisition of short-term investments	(42)	(916)	(1,005)
Proceeds from short-term investments	355	1,029	816
Dispositions	1,140	578	96
Acquisitions	—	(1,118)	(442)
Other	11	13	19
Cash Used in Investing Activities	(4,548)	(6,670)	(6,445)
Financing Activities			
Change in short-term borrowings with original maturities of three months or less	(367)	(563)	(974)
Advance of other short-term borrowings	2	1,079	209
Payment of other short-term borrowings	(8)	(805)	(134)
Advance of long-term debt	413	1,597	988
Payment of long-term debt	(1,121)	(602)	(443)
Early extinguishment of debt and related call premiums	(765)	(6)	—
Advance of trust originated preferred securities	—	—	1,000
Acquisition of fractional shares	—	(15)	—
Advance of common shares	64	—	111
Acquisition of treasury shares	(498)	(87)	(650)
Advance of treasury shares	308	293	52
Dividends paid	(1,811)	(1,724)	(1,765)
Other	—	(7)	(103)
Cash Used in Financing Activities	(3,783)	(840)	(1,709)
Net increase (decrease) in cash and cash equivalents	50	86	(253)
Cash and cash equivalents beginning of year	410	324	577
Cash and Cash Equivalents End of Year	\$ 460	\$ 410	\$ 324

accompanying notes are an integral part of the consolidated financial statements.

NSOLIDATED STATEMENTS OF SHAREOWNERS' EQUITY

rs and shares in millions except per share amounts

	Common Shares		Capital in Excess of Par Value	Retained Earnings (Deficit)	Guaranteed Obligations of ESOP	Deferred Compensation LESOP	Accumulated Other Comprehensive Income	Treasury Shares		Total Comprehensive Income
	Shares	Amount						Shares	Amount	
nce, December 31, 1995	991	\$ 991	\$10,002	\$ (546)	\$ (331)	\$ (242)	\$ (578)	(11)	\$ (481)	\$ —
t income for the year										
1.78 per share)	—	—	—	3,477	—	—	—	—	—	3,477
ner comprehensive income,										
et of tax:										
Foreign currency translation										
adjustment, net of income										
tax benefit of \$28	—	—	—	—	—	—	(59)	—	—	(59)
l Comprehensive Income										(59)
										3,418
tends to shareowners										
.86 per share)	—	—	(115)	(1,680)	—	—	—	—	—	—
uction of debt associated										
h ESOP	—	—	—	—	55	—	—	—	—	—
of LESOP trust shares										
located to employee accounts	—	—	—	—	—	81	—	—	—	—
ance of common shares	—	—	20	—	—	—	—	—	—	—
hase of treasury shares	—	—	—	—	—	—	—	(13)	(650)	—
ance of treasury shares	—	—	21	—	—	—	—	4	146	—
er	—	—	3	14	—	—	—	—	—	—
nce, December 31, 1996	991	991	9,931	1,265	(276)	(161)	(637)	(20)	(985)	3,418
t income for the year										
0.86 per share)	—	—	—	1,674	—	—	—	—	—	1,674
ner comprehensive income,										
et of tax:										
Foreign currency translation										
adjustment, net of income										
tax expense of \$38	—	—	—	—	—	—	63	—	—	63
l Comprehensive Income										1,737
										1,737
tends to shareowners										
.895 per share)	—	—	—	(1,755)	—	—	—	—	—	—
uction of debt associated										
h ESOP	—	—	—	—	57	—	—	—	—	—
of LESOP trust shares										
located to employee accounts	—	—	—	—	—	42	—	—	—	—
ance of common shares	1	1	39	—	—	—	—	—	—	—
hase of treasury shares	—	—	—	—	—	—	—	(2)	(87)	—
ance of treasury shares	—	—	(38)	—	—	—	—	7	335	—
er	—	—	34	20	—	—	—	—	7	—
nce, December 31, 1997	992	992	9,966	1,204	(219)	(119)	(574)	(15)	(730)	1,737
t income for the year										
2.06 per share)	—	—	—	4,023	—	—	—	—	—	4,023
ner comprehensive income,										
et of tax:										
Foreign currency translation										
adjustment, net of income										
tax benefit of \$37	—	—	—	—	—	—	(58)	—	—	(58)
Unrealized gain on available-										
for-sale securities	—	—	—	—	—	—	60	—	—	60
Less: reclassification										
adjustment for gains										
included in net income	—	—	—	—	—	—	(60)	—	—	(60)
l Comprehensive Income										3,965
										3,965
tends to shareowners										
.935 per share)	—	—	—	(1,836)	—	—	—	—	—	—
for-one stock split	993	993	(993)	—	—	—	—	(15)	—	—
uction of debt associated										
h ESOP	—	—	—	—	72	—	—	—	—	—
of LESOP trust shares										
located to employee accounts	—	—	—	—	—	37	—	—	—	—
ance of common shares	3	3	74	—	—	—	—	—	—	—
hase of treasury shares	—	—	—	—	—	—	—	(12)	(498)	—
ance of treasury shares	—	—	(33)	—	—	—	—	14	346	—
er	—	—	125	5	—	—	—	—	—	—
nce, December 31, 1998	1,988	\$1,988	\$ 9,139	\$3,396	\$(147)	\$ (82)	\$(632)	(28)	\$(882)	\$3,965

companying notes are an integral part of the consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Dollars in millions except per share amounts

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation – The consolidated financial statements include the accounts of SBC Communications Inc. and its majority-owned subsidiaries (SBC). The statements reflect SBC's mergers with Pacific Telesis Group (PAC) and Southern New England Telecommunications Corporation (SNET) as pooling of interests (see Note 2). SBC's subsidiaries and affiliates operate predominantly in the communications services industry, providing landline and wireless telecommunications services and equipment and directory advertising both domestically and worldwide.

SBC's principal wireline subsidiaries are Southwestern Bell Telephone Company (SWBell), providing telecommunications services in Texas, Missouri, Oklahoma, Kansas and Arkansas, Pacific Bell (PacBell, which also includes Pacific Bell Information Services), The Southern New England Telephone Company and Nevada Bell (collectively referred to as the Telephone Companies). SBC's principal wireless subsidiaries are Southwestern Bell Mobile Systems, Inc., Pacific Bell Mobile Services and SNET Cellular, Inc. SBC's principal directory subsidiaries are Southwestern Bell Yellow Pages, Inc. (SWBYP), Pacific Bell Directory (PB Directory) and SNET Information Services, Inc.

All significant intercompany transactions are eliminated in the consolidation process. Investments in partnerships, joint ventures and less than majority-owned subsidiaries are principally accounted for under the equity method. Earnings from certain foreign investments accounted for under the equity method are included for periods ended within three months of SBC's year end.

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates. Certain amounts in prior period financial statements have been reclassified to conform to the current year's presentation.

Income Taxes – Deferred income taxes are provided for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for tax purposes.

Investment tax credits earned prior to their repeal by the Tax Reform Act of 1986 are amortized as reductions in income tax expense over the lives of the assets which gave rise to the credits.

Cash Equivalents – Cash equivalents include all highly liquid investments with original maturities of three months or less.

Deferred Charges – Directory advertising costs are deferred until the directory is published and advertising revenues related to these costs are recognized.

Revenue Recognition/Cumulative Effect of Accounting Change – SBC recognizes revenues as earned. Amounts billed in advance of the period in which service is rendered are recorded as a liability.

SNET Information Services, Inc. prior to January 1, 1998, and PB Directory, prior to January 1, 1996, recognized revenues and expenses related to publishing directories using the "amortiza-

tion" method, under which revenues and expenses were recognized over the lives of the directories, generally one year. Effective January 1, 1998, for SNET Information Services, Inc. and January 1, 1996, for PB Directory, the accounting was changed to the "issue basis" method of accounting, which recognizes the revenues and expenses at the time the related directory is published. The change in methodology was made because the issue basis method is generally followed in the publishing industry, including SWBYP, and better reflects the operating activity of the business.

The cumulative after-tax effect of applying the changes in method to prior years was recognized as of January 1, 1998 and 1996 as one-time, non-cash gains of \$15, or \$0.01 per share and \$90, or \$0.05 per share. The gains are net of deferred taxes of \$11 and \$53. Had the current method been applied during prior periods, income before extraordinary loss and cumulative effect of accounting change would not have been materially affected.

Property, Plant and Equipment – Property, plant and equipment is stated at cost. The cost of additions and substantial betterments of property, plant and equipment is capitalized. The cost of maintenance and repairs of property, plant and equipment is charged to operating expenses. Property, plant and equipment is depreciated using straight-line methods over their estimated economic lives, generally ranging from 3 to 50 years. In accordance with composite group depreciation methodology, when a portion of the Telephone Companies' depreciable property, plant and equipment is retired in the ordinary course of business, the gross book value is charged to accumulated depreciation; no gain or loss is recognized on the disposition of this plant.

Intangible Assets – Intangible assets consist primarily of wireless cellular and Personal Communications Services (PCS) licenses, customer lists and the excess of consideration paid over net assets acquired in business combinations. These assets are being amortized using the straight-line method, over periods generally ranging from 5 to 40 years. At December 31, 1998 and 1997, amounts included in net intangible assets for licenses were \$2,141 and \$2,261. Management periodically reviews the carrying value and lives of all intangible assets based on expected future cash flows.

Software Costs – The costs of computer software purchased or developed for internal use are expensed as incurred. However, initial operating system software costs are capitalized and amortized over the estimated economic lives of the associated hardware. The American Institute of Certified Public Accountants has issued a Statement of Position (SOP) that requires capitalization of certain computer software expenditures beginning in 1999.

Management continues to evaluate the impact of the change in accounting required by the SOP and anticipates that it will increase net income by less than \$200 in 1999. With comparable levels of software expenditures, the SOP would tend to increase net income in comparison with SBC's current method of accounting for software costs. However, the increases would be largest in the year of adoption with diminishing levels of increases compared with current accounting throughout the amortization period. Consequently, given otherwise comparable income levels excluding software, and otherwise comparable software expenditures, the

effect of the SOP would be to increase income in the first year and decrease income in each subsequent year until the number of years affected by the SOP equals the amortization period.

Advertising Costs – Costs for advertising products and services or corporate image are expensed as incurred (see Note 18).

Foreign Currency Translation – Local currencies are generally considered the functional currency for SBC's share of foreign operations, except in countries considered highly inflationary. SBC translates its share of foreign assets and liabilities at current exchange rates. Revenues and expenses are translated using average rates during the year. The ensuing foreign currency translation adjustments are recorded as a separate component of shareholders' equity. Other transaction gains and losses resulting from exchange rate changes on transactions denominated in a currency other than the local currency are included in earnings as incurred.

Derivative Financial Instruments – SBC does not invest in any derivatives for trading purposes. From time to time as part of its risk management strategy, SBC uses immaterial amounts of derivative financial instruments including interest rate swaps to hedge exposures to interest rate risk on debt obligations, and foreign currency forward exchange contracts to hedge exposures to changes in foreign currency rates for transactions related to its foreign investments. Derivative contracts are entered into for hedging of firm commitments only. SBC currently does not recognize the fair values of these derivative financial investments or their changes in fair value in its financial statements. Interest rate swap settlements are recognized as adjustments to interest expense in the consolidated statements of income when paid or received. Foreign currency forward exchange contracts are set up to coincide with firm commitments. Gains and losses are deferred until the underlying transaction being hedged occurs, and then are recognized as part of that transaction. PAC entered into an equity swap contract to hedge exposure to risk associated with its recorded liability for certain outstanding employee stock options relating to stock of AirTouch Communications Inc. (AirTouch) (see Note 15). The equity swap contract and its liability are recorded at fair value in the balance sheet as other assets or liabilities. Equity swap settlements are recorded in interest expense in the consolidated statements of income when paid or received.

NOTE 2. MERGERS WITH SNET AND PAC

In April 1, 1997, SBC and PAC completed the merger of an SBC subsidiary with PAC, in a transaction in which each outstanding share of PAC common stock was exchanged for 1.4629 shares of SBC common stock (equivalent to approximately 626 million shares). With the merger, PAC became a wholly-owned subsidiary of SBC. The transaction has been accounted for as a pooling of interests and a tax-free reorganization.

Transaction costs and one-time charges relating to the closing of the merger were \$359 (\$215 net of tax) including, among other items, the present value of amounts to be returned to California ratepayers as a condition of the merger and expenses for investment banker and professional fees. Of this total, \$287

(\$180 net of tax) is included in expenses in 1997, and \$72 (\$35 net of tax) in 1996. The amounts due to ratepayers are being paid out over five years, from 1998 to 2002.

On October 26, 1998, SBC and SNET completed the merger of an SBC subsidiary with SNET, in a transaction in which each share of SNET common stock was exchanged for 1.7568 shares of SBC common stock (equivalent to approximately 120 million shares). SNET became a wholly-owned subsidiary of SBC effective with the merger and the transaction has been accounted for as a pooling of interests and a tax-free reorganization. Financial statements for prior periods have been restated to include the accounts of SNET. Transaction costs related to the merger were \$40 (\$26 net of tax).

Operating revenues, income before extraordinary loss and cumulative effect of accounting change and net income of the separate companies for the pre-merger periods of the last three periods were as follows:

	Nine Months Ended September 30, 1998	Year Ended December 31, 1997	1996
Operating revenues:			
SBC	\$19,495	\$24,659	\$23,260
SNET	1,606	2,022	1,942
Combined	\$21,101	\$26,681	\$25,202
Income before extraordinary loss and cumulative effect of accounting change:			
SBC	\$ 3,085	\$ 1,474	\$ 3,189
SNET	164	198	193
Adjustments	3	2	5
Combined	\$ 3,252	\$ 1,674	\$ 3,387
Net income:			
SBC	\$ 3,085	\$ 1,474	\$ 3,279
SNET	179	194	193
Adjustments	3	6	5
Combined	\$ 3,267	\$ 1,674	\$ 3,477

The combined results include the effect of changes applied retroactively to conform the accounting methodologies between SNET and SBC for pension and postemployment benefits. SBC believes the new method is more prevalent and better reflects the operations of the business.

Post-merger initiatives – During the second quarter of 1997, SBC announced after-tax charges of \$1.6 billion related to several strategic decisions resulting from the merger integration process that began with the April 1, 1997 closing of its merger with PAC, which included \$165 (\$101 after tax) of charges related to several regulatory rulings during the second quarter of 1997 and \$281 (\$176 after tax) for merger approval costs. The decisions resulted from an extensive review of operations throughout the merged company and include significant integration of operations and consolidation of some administrative and support functions.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Dollars in millions except per share amounts

During the fourth quarter of 1998, SBC again performed a complete review of all operations affected by the merger with SNET to determine the impact on ongoing merger integration processes. Review teams examined operational functions and evaluated all strategic initiatives. As a result of this review, SBC announced net after-tax charges of \$268 related to strategic decisions arising from the review and expensing of merger-related costs incurred by SNET.

One-time charges related to the strategic decisions reached by the review teams totaled \$403 (\$249 after tax) in the fourth quarter of 1998 and \$2 billion (\$1.3 billion after tax) in the second quarter of 1997. At December 31, 1998 and 1997, remaining accruals for anticipated cash expenditures related to these decisions were approximately \$323 and \$432.

Reorganization – SBC is centralizing several key functions that will support the operations of the Telephone Companies, including network planning, strategic marketing and procurement. It is also consolidating a number of corporate-wide support activities, including research and development, information technology, financial transaction processing and real estate management. The Telephone Companies will continue as separate legal entities. These initiatives continue to result in the creation of some jobs and the elimination and realignment of others, with many of the affected employees changing job responsibilities and in some cases assuming positions in other locations.

SBC recognized charges of approximately \$82 (\$50 net of tax) during the fourth quarter of 1998 and \$338 (\$213 net of tax) during the second quarter of 1997 in connection with these initiatives. The charges were comprised mainly of postemployment benefits, primarily related to severance, and costs associated with closing down duplicate operations, primarily contract cancellations. Other charges arising out of the mergers related to relocation, retraining and other effects of consolidating certain operations are being recognized in the periods those charges are incurred. The initial integration process subsequent to the PAC merger resulted in SBC incurring expenses for these merger-related items in advance of any substantial synergistic benefits. During the second half of 1997, these merger-related charges totaled \$501 (\$304 net of tax).

Impairments/asset valuation – As a result of SBC's merger integration plans, strategic review of domestic operations and organizational alignments, SBC reviewed the carrying values of related long-lived assets in the fourth quarter of 1998 and the second quarter of 1997. The reviews were conducted company-wide, although the fourth quarter 1998 review focused primarily on SNET. These reviews included estimating remaining useful lives and cash flows and identifying assets to be abandoned. Where this review indicated impairment, discounted cash flows related to those assets were analyzed to determine the amount of the impairment. As a result of these reviews, SBC wrote off some assets and recognized impairments to the value of other assets, recording a combined charge of \$321 (\$199 after tax) in the fourth quarter of 1998 and \$965 (\$667 after tax) in the second quarter of 1997.

The 1998 impairments and writeoffs primarily related to recognition of an impairment of the assets supporting SNET's

video and telephony operations, and also included charges for required changes in wireless equipment, inventory and sites. The 1997 impairments and writeoffs related primarily to the wireless digital TV operations in southern California, certain analog switching equipment in California, certain rural and other telecommunications equipment in Nevada, selected wireless equipment, duplicate or obsolete equipment, cable within commercial buildings in California, certain nonoperating plant and other assets.

Pacific and Southwestern video curtailment/purchase commitments – SBC also announced in 1997 that it was scaling back its limited direct investment in video services in the areas also served by PacBell and SWBell. As a result of this curtailment, SBC halted construction on the Advanced Communications Network (ACN) in California. As part of an agreement with the ACN vendor, SBC paid the liabilities of the ACN trust that owned and financed ACN construction, incurred costs to shut down all construction previously conducted under the trust and received certain consideration from the vendor. In the second quarter of 1997, SBC recognized net expense of \$553 (\$346 after tax) associated with these activities. During the third quarter of 1997, SBC recorded the corresponding short-term debt of \$610 previously incurred by the ACN trust on its balance sheet. Additionally, SBC curtailed certain other video-related activities including discontinuing its broadband network video trials in Richardson, Texas, and San Jose, California, substantially scaling back its involvement in the Tele-TV joint venture and withdrawing its operations in territory served by SWBell from the Americast venture. Americast partners are disputing the withdrawal in arbitration and litigation, the outcome of which cannot be predicted, but is not expected to have a material impact on SBC's financial condition or results of operations. The collective impact of these decisions and actions by SBC resulted in a charge of \$145 (\$92 after tax) in the second quarter of 1997.

NOTE 3. MERGER AGREEMENT WITH AMERITECH CORPORATION

On May 11, 1998, SBC announced a definitive agreement to merge an SBC subsidiary with Ameritech Corporation (Ameritech) in a transaction in which each share of Ameritech common stock will be converted into and exchanged for 1.316 shares of SBC common stock (equivalent to approximately 1,450 million shares). After the merger, Ameritech will be a wholly-owned subsidiary of SBC. The transaction, which has been approved by the board of directors and shareowners of each company, is intended to be accounted for as a pooling of interests and to be a tax-free reorganization. The merger is subject to certain regulatory approvals, including the Federal Communications Commission (FCC) and state commissions in Ohio and Illinois. If approvals are granted, the transaction is expected to close in 1999.

SBC and Ameritech own competing cellular licenses in several markets, including, but not limited to, Chicago, Illinois, and St. Louis, Missouri (Overlapping Cellular Licenses). In an effort to comply with the FCC's rules and regulations and certain provisions of the Merger Agreement, SBC and Ameritech expect to be required by the FCC to divest one of the Overlapping Cellular Licenses in each market and are attempting to determine the manner in which an Overlapping Cellular License in each market should be divested.

The pro forma effect on SBC's consolidated statements of income had the merger occurred on January 1, 1996 is as follows:

Pro Forma (unaudited):	1998	1997	1996
Operating revenues	\$45,931	\$42,679	\$40,119
Income before extraordinary loss and cumulative effect of accounting change	\$ 7,674	\$ 3,970	\$ 5,521
Net income	\$ 7,629	\$ 3,970	\$ 5,611
Basic earnings per share:			
Income before extraordinary loss and cumulative effect of accounting change	\$ 2.25	\$ 1.17	\$ 1.62
Net income	\$ 2.24	\$ 1.17	\$ 1.65
Diluted earnings per share:			
Income before extraordinary loss and cumulative effect of accounting change	\$ 2.23	\$ 1.16	\$ 1.61
Net income	\$ 2.21	\$ 1.16	\$ 1.64

This pro forma information does not include the effect of changes, which will be applied retroactively, to conform accounting methodologies between SBC and Ameritech. Based on information currently available, management estimates the conforming changes will not materially affect the pro forma operating revenues or income before extraordinary loss and cumulative effect of accounting change. Additionally, the pro forma information also does not include any potential cost savings which may result from the integration of SBC's and Ameritech's operations or future transaction costs relating to the merger (which are estimated to be less than \$90), nor does it consider any reorganization costs or costs associated with the disposition of the Overlapping Cellular Licenses that may be required. Management is unable to quantify the potential cost savings that may result from the integration of SBC and Ameritech. The financial impact of the reorganization costs or costs associated with the disposition of the Overlapping Cellular Licenses cannot be determined pending the resolution of the disposal.

NOTE 4. PACIFIC TELESIS GROUP FINANCIAL INFORMATION

The following table presents summarized financial information for PAC at December 31, or for the year then ended:

	1998	1997	1996
Balance Sheets			
Current assets	\$ 3,037	\$ 2,835	\$ 2,474
Noncurrent assets	15,428	14,150	14,134
Current liabilities	5,278	4,513	3,527
Noncurrent liabilities	10,482	10,413	10,308
Income Statements			
Operating revenues	\$11,302	\$10,101	\$ 9,588
Operating income (loss)	2,612	(166)	2,198
Income (loss) before extraordinary loss and cumulative effect of accounting changes	1,240	(546)	1,057
Net income (loss)	1,180	(224)	1,142

SBC has not provided separate financial statements and other disclosures for PAC as management has determined that such information is not material to the holders of the Trust Originated Preferred Securities (TOPrS) (see Note 11), which have been guaranteed by SBC. This information is provided as a supplement only.

NOTE 5. EARNINGS PER SHARE

A reconciliation of the numerators and denominators of basic earnings per share and diluted earnings per share for income before extraordinary loss and cumulative effect of accounting change for the years ended December 31, 1998, 1997 and 1996 are shown in the table below.

Year Ended December 31,	1998	1997	1996
Numerators			
Numerator for basic earnings per share:			
Income before extraordinary loss and cumulative effect of accounting change	\$4,068	\$1,674	\$3,387
Dilutive potential common shares:			
Other stock-based compensation	4	3	2
Numerator for diluted earnings per share	\$4,072	\$1,677	\$3,389
Denominators			
Denominator for basic earnings per share:			
Weighted average number of common shares outstanding (000)	1,956,610	1,944,617	1,956,200
Dilutive potential common shares (000):			
Stock options	21,701	12,926	7,385
Other stock-based compensation	5,542	4,388	3,410
Denominator for diluted earnings per share	1,983,853	1,961,931	1,966,995
Basic earnings per share:			
Income before extraordinary loss and cumulative effect of accounting change	\$ 2.08	\$ 0.86	\$ 1.73
Extraordinary loss	(0.03)	—	—
Cumulative effect of accounting change	0.01	—	0.05
Net income	\$ 2.06	\$ 0.86	\$ 1.78
Diluted earnings per share:			
Income before extraordinary loss and cumulative effect of accounting change	\$ 2.05	\$ 0.85	\$ 1.72
Extraordinary loss	(0.03)	—	—
Cumulative effect of accounting change	0.01	—	0.05
Net income	\$ 2.03	\$ 0.85	\$ 1.77

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Dollars in millions except per share amounts

NOTE 6. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment is summarized as follows at December 31:

	1998	1997
Land	\$ 442	\$ 434
Buildings	6,842	6,502
Central office equipment	28,019	25,864
Cable, wiring and conduit	30,916	29,943
Other equipment	5,897	5,926
Under construction	1,350	1,546
	73,466	70,215
Accumulated depreciation and amortization	43,546	41,147
Property, plant and equipment – net	\$29,920	\$29,068

SBC's depreciation expense as a percentage of average depreciable plant was 7.2%, 7.4% and 6.9% for 1998, 1997 and 1996.

Certain facilities and equipment used in operations are under operating or capital leases. Rental expenses under operating leases for 1998, 1997 and 1996 were \$440, \$386 and \$346. At December 31, 1998, the future minimum rental payments under noncancelable operating leases for the years 1999 through 2003 were \$1,817, \$2,652, \$2,519, \$2,553 and \$2,508 and \$7,096 thereafter. Capital leases are not significant.

NOTE 7. INVESTMENT IN TELEWEST COMMUNICATIONS PLC

During 1998, SBC owned up to 15% of Telewest Communications plc (Telewest), the largest cable television operator in the United Kingdom. Due to restrictions existing on the sale of SBC's interest in Telewest, SBC accounted for its investment using the cost method of accounting. During the third quarter of 1998, as a result of Telewest's merger with General Cable, Telewest entered into a new agreement with its key shareholders, including SBC, which lifted those restrictions. SBC was then required to account for its investment in Telewest as available-for-sale securities pursuant to Financial Accounting Standards Board Statement No. 115, "Accounting for Certain Investments in Debt and Equity Securities" (FAS 115). Under FAS 115, available-for-sale securities are measured at fair value in the statement of financial position, and unrealized holding gains and losses are excluded from earnings and reported as a net amount in a separate component of shareholders' equity until realized. During 1998, SBC sold approximately 90% of its Telewest investment for \$425 and made a charitable contribution of the remainder. The net effect from Telewest transactions for the year ended December 31, 1998 was to increase net income by \$60.

NOTE 8. EQUITY INVESTMENTS

Investments in affiliates accounted for under the equity method include SBC's investment in Teléfonos de México, S.A. de C.V. (Telmex), Mexico's national telecommunications company. SBC is a member of a consortium that holds all of the AA shares of Telmex stock, representing voting control of the company. Another member of the consortium, Carso Global Telecom, S.A.

de C.V., has the right to appoint a majority of the directors of Telmex. SBC also owns L shares which have limited voting rights. Throughout 1998, SBC sold portions of its L shares in response to open market share repurchases by Telmex, so that its total equity investment remained below 10% of Telmex's total equity capitalization.

Other major equity investments held by SBC include a 1997 investment of approximately \$760 in Telkom SA Limited (Telkom), the state-owned telecommunications company of South Africa (see Note 17), an indirect 15% ownership in Cegetel, a joint venture providing a broad range of telecommunications offerings in France, investments in Chilean telecommunications operations and minority ownership of several domestic wireless properties.

The following table is a reconciliation of SBC's investments in equity affiliates:

	1998	1997	1996
Beginning of year	\$2,740	\$1,964	\$1,616
Additional investments	55	1,076	337
Equity in net income	236	201	207
Dividends received	(167)	(90)	(70)
Currency translation adjustments	(110)	(135)	(94)
Reclassifications and other adjustments	(240)	(276)	(32)
End of year	\$2,514	\$2,740	\$1,964

The currency translation adjustment for 1998 primarily reflects the effect of exchange rate fluctuations on SBC's investment in South Africa. Other adjustments for 1998 reflect a write-down of an international investment and the sale of portions of SBC's Telmex L shares.

Currency translation adjustments for 1997 primarily reflect the effect of the exchange rate fluctuations on SBC's investments in South African and French telecommunications companies. Other adjustments for 1997 reflect the sale of portions of SBC's Telmex L shares and the change to the cost method of accounting in 1997 for SBC's 1995 investment in South African wireless operations which were sold during the third quarter of 1998 (see Note 17).

Undistributed earnings from equity affiliates were \$918 and \$862 at December 31, 1998 and 1997.

NOTE 9. SEGMENT INFORMATION

SBC has four reportable segments: Wireline, Wireless, Directory and Other. The Wireline segment provides landline telecommunications services, including local, network access and long distance services, messaging and Internet services and sells customer premise and private business exchange equipment. The Wireless segment provides wireless telecommunications services, including local and long distance services, and sells wireless equipment. The Directory segment sells advertising for and publication of yellow pages and white pages directories and electronic publishing. The Other segment includes SBC's international investments and other domestic operating subsidiaries.

These segments are strategic business units that offer different products and services and are managed accordingly. SBC evaluates performance based on income before income taxes, adjusted for normalizing items. For 1998, normalizing items included gains on sales of certain non-core businesses, principally the required disposition of SBC's interest in Mobile Telephone Networks (MTN), a South African national cellular company, due to SBC's investment in Telkom, and charges related to strategic initiatives resulting from the merger integration process with SNET. For 1997, normalizing items included the costs related to strategic initiatives resulting from the merger integration process with PAC, the impact of several second quarter 1997 regulatory filings and charges for ongoing merger integration costs (see Note 2), as well as the gain on the sale of the Telephone Companies' interest in Bell Communications Research, Inc.

(Bellcore) and the first quarter 1997 settlement gain at PAC associated with lump-sum pension payments that exceeded the projected service and interest costs for 1996 retirements. The effect of any normalizing adjustments is shown separately in the table below. The accounting policies of the segments are the same as those described in Note 1. Transactions between segments are reported at fair value.

Corporate, adjustments and eliminations include corporate activities, the elimination of intersegment transactions, and other adjustments. Included in other adjustments are differences in accounting between subsidiary and consolidated financial statements for postretirement benefits at PacBell and the treatment of conforming accounting adjustments arising out of the pooling of interests with SNET and PAC that were required to be treated as changes in accounting principles by the subsidiaries.

December 31, 1998 or for the year ended	Wireline	Wireless	Directory	Other	Corporate, Adjustments & Eliminations	Normalizing Adjustments	Total
Revenues from external customers	\$22,097	\$4,184	\$2,320	\$ 82	\$ 102	\$ (8)	\$28,777
Intersegment revenues	113	1	73	3	(190)	—	—
Depreciation and amortization	4,265	583	31	—	77	221	5,177
Equity in net income of affiliates	—	25	—	211	—	—	236
Interest expense	861	179	11	37	(98)	3	993
Income before income taxes	4,364	490	1,131	269	195	(75)	6,374
Investment assets	33,427	7,161	1,385	2,854	239	—	45,066
Investment in equity method investees	34	232	—	2,274	(26)	—	2,514
Expenditures for additions to long-lived assets	5,178	644	30	11	64	—	5,927

December 31, 1997 or for the year ended	Wireline	Wireless	Directory	Other	Corporate, Adjustments & Eliminations	Normalizing Adjustments	Total
Revenues from external customers	\$20,718	\$3,696	\$2,197	\$ 57	\$ 201	\$ (188)	\$26,681
Intersegment revenues	208	1	89	—	(298)	—	—
Depreciation and amortization	4,095	491	28	—	83	604	5,301
Equity in net income of affiliates	(5)	9	—	206	(9)	—	201
Interest expense	837	152	4	25	(2)	27	1,043
Income before income taxes	3,736	355	1,043	192	75	(2,743)	2,658
Investment assets	32,018	7,071	1,227	3,398	1,122	—	44,836
Investment in equity method investees	34	229	—	2,503	(26)	—	2,740
Expenditures for additions to long-lived assets	5,275	776	38	—	141	—	6,230

December 31, 1996 or for the year ended	Wireline	Wireless	Directory	Other	Corporate, Adjustments & Eliminations	Normalizing Adjustments	Total
Revenues from external customers	\$19,751	\$3,137	\$2,077	\$ 34	\$ 203	\$ —	\$25,202
Intersegment revenues	168	—	68	9	(245)	—	—
Depreciation and amortization	3,954	397	28	1	86	—	4,466
Equity in net income of affiliates	(5)	22	—	226	(36)	—	207
Interest expense	766	107	5	34	(11)	—	901
Income before income taxes	3,789	567	970	178	(47)	—	5,457
Expenditures for additions to long-lived assets	4,712	1,006	32	5	100	—	5,855

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Dollars in millions except per share amounts

Geographic Information

SBC's investments outside of the United States are primarily accounted for under the equity method of accounting and do not record in operating revenues and expenses the revenues and expenses of the individual companies in which SBC invests. Long-lived assets consist primarily of the book value of these investments.

Year Ended December 31,	1998	1997	1996
Revenues:			
United States	\$28,692	\$26,624	\$25,168
Mexico	15	21	25
South Africa	48	22	3
France	4	5	3
Chile	1	2	2
Other foreign	17	7	1
Total	\$28,777	\$26,681	\$25,202
<hr/>			
December 31,	1998	1997	
Long-Lived Assets:			
United States	\$31,135	\$30,229	
Mexico	836	733	
South Africa	694	837	
France	557	543	
United Kingdom	—	339	
Chile	59	295	
Other foreign	214	234	
Total	\$33,495	\$33,210	

NOTE 10. DEBT

Long-term debt, including interest rates and maturities, is summarized as follows at December 31:

	1998	1997
SWBell		
Debentures		
5.38%-5.88% 2003-2006	\$ 500	\$ 500
6.13%-6.88% 2000-2048	1,750	1,550
7.00%-7.75% 2009-2027	1,150	1,750
	3,400	3,800
Unamortized discount – net of premium	(38)	(36)
Total debentures	3,362	3,764
Notes		
5.04%-7.67% 1998-2010	1,063	1,236
Unamortized discount	(5)	(6)
Total notes	1,058	1,230
PacBell		
Debentures		
4.62%-5.88% 1999-2006	475	475
6.00%-6.88% 2002-2034	1,194	1,194
7.12%-7.75% 2008-2043	1,587	2,250
8.50% 2031	29	225
	3,285	4,144
Unamortized discount – net of premium	(65)	(89)
Total debentures	3,220	4,055
Notes		
6.12%-8.70% 2001-2009	1,500	1,300
Unamortized discount	(18)	(18)
Total notes	1,482	1,282
Other notes and debentures		
4.37%-6.98% 1998-2007	501	633
7.00%-10.50% 1998-2033	2,048	2,033
	2,549	2,666
Unamortized premium – net of discount	61	65
Total other notes and debentures	2,610	2,731
Guaranteed obligations of ESOP¹		
8.41%-9.40% 2000	127	198
Capitalized leases	260	294
Total long-term debt, including		
current maturities	12,119	13,554
Current maturities	(507)	(378)
Total long-term debt	\$11,612	\$13,176

¹See Note 14.

In February and September 1998, SBC called \$805 of long-term debt for retirement. SBC recognized after-tax charges of \$11 associated with the calling of this debt.

In October 1998, PacBell repurchased \$684 of long-term debt. The repurchases resulted in a \$60 after-tax extraordinary loss, net of taxes of \$42.

At December 31, 1998, the aggregate principal amounts of long-term debt and average interest rate scheduled for repayment for the years 1999 through 2003 were \$507 (6.6%),

\$574 (6.4%), \$1,034 (7.5%), \$980 (6.7%), \$749 (6.3%) with \$8,406 (6.9%) due thereafter. As of December 31, 1998, SBC was in compliance with all covenants and conditions of instruments governing its debt.

Debt maturing within one year consists of the following at December 31:

	1998	1997
Commercial paper	\$1,044	\$1,412
Current maturities of long-term debt	507	378
Other short-term debt	—	349
Total	\$1,551	\$2,139

The weighted average interest rate on commercial paper debt at December 31, 1998 and 1997 was 5.49% and 6.02%. SBC has entered into agreements with several banks for compensated lines of credit totaling \$655 and uncompensated lines of credit totaling \$805, thus total lines of credit available are \$1,460, all of which may be used to support commercial paper borrowings. SBC had no borrowings outstanding under these lines of credit as of December 31, 1998 or 1997.

NOTE 11. FINANCIAL INSTRUMENTS

The carrying amounts and estimated fair values of SBC's long-term debt, including current maturities and other financial instruments, are summarized as follows at December 31:

	1998		1997	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
WBell debentures	\$3,362	\$3,531	\$3,764	\$3,828
WBell notes	1,058	1,129	1,230	1,271
PacBell debentures	3,220	3,463	4,055	4,337
PacBell notes	1,482	1,590	1,282	1,342
Other notes and debentures	2,610	2,725	2,731	2,947
TOPrS	1,000	1,029	1,000	1,034
Guaranteed obligations of ESOP ¹	127	132	198	207

¹ See Note 14.

The fair values of SBC's long-term debt were estimated based on quoted market prices, where available, or on the net present value method of expected future cash flows using current interest rates. The fair value of the TOPrS was estimated based on quoted market prices. The carrying amounts of commercial paper debt approximate fair values.

SBC does not hold or issue any financial instruments for trading purposes. SBC's cash equivalents and short-term investments are recorded at amortized cost. The carrying amounts of cash and cash equivalents and short-term investments and customer deposits approximate fair values.

Pacific Telesis Financing I and II (the Trusts) were formed for the exclusive purpose of issuing preferred and common securities representing undivided beneficial interests in the Trusts and investing the proceeds from the sales of TOPrS in unsecured subordinated debt securities of PAC. Under certain circumstances, dividends on TOPrS could be deferred for up to a period of five years. PAC sold \$1 billion of TOPrS, \$500 at 7.56% in January 1996 through Pacific Telesis Financing I and \$500 at 8.5% in June 1996 through Pacific Telesis Financing II. As of December 31, 1998, the Trusts held subordinated debt securities of PAC in principal amounts of \$516 and \$514 with interest rates of 7.56% and 8.5%. Both issues of TOPrS were priced at \$25 per share, have an original 30-year maturity that may be extended up to 49 years, are callable five years after date of sale at par and are included on the balance sheet as corporation-obligated mandatorily redeemable preferred securities of subsidiary trusts. The proceeds were used to retire short-term indebtedness, primarily commercial paper. SBC has guaranteed payment of the obligations of the TOPrS.

Derivatives

SBC entered into an equity swap contract to hedge exposure to risk of market changes related to its recorded liability for outstanding employee stock options for common stock of AirTouch (spun-off operations) and associated stock appreciation rights (SARs) (see Note 15). In February 1999, SBC began exiting the equity swap contract, receiving cash for the appreciated value of the contract and recognizing a minimal gain. Once exited, SBC will record in other income (expense) – net future changes in the value of the underlying employee stock option exposure. SBC plans to make open-market purchases of the stock of spun-off operations to satisfy its obligation for options that are exercised. Off-balance-sheet risk exists to the extent the market price of the stock of spun-off operations rises above the market price reflected in the liability's current carrying value. The equity swap hedged this exposure and minimized the impact of market fluctuations. The contract entitled SBC to receive settlement payments to the extent the price of the common stock of spun-off operations rose above the notional value of \$23.74 per share, but imposed an obligation to make payments to the extent the price declined below this level. The swap also obligated SBC to make a monthly payment of a fee based on LIBOR. The total notional amount of the contract, \$13 and \$19 as of December 31, 1998 and 1997, covered the approximate number of the outstanding options and SARs of spun-off operations on that date. SBC periodically adjusted downward the outstanding notional amount as the options and SARs were exercised.

Both the equity swap and SBC's liability for the stock options and SARs of spun-off operations are carried in the balance sheet at their market values, which were immaterial as of December 31, 1998 and 1997. Gains and losses from quarterly market adjustments of the carrying amounts were substantially offsetting. As of December 31, 1998 and 1997, the accounting loss that would have been incurred from nonperformance by the counterparty to the equity swap was \$26 and \$14.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Dollars in millions except per share amounts

NOTE 12. INCOME TAXES

Significant components of SBC's deferred tax liabilities and assets are as follows at December 31:

	1998	1997
Depreciation and amortization	\$3,959	\$3,679
Equity in foreign subsidiaries	357	253
Other	355	2,052
Deferred tax liabilities	4,671	5,984
Employee benefits	1,707	2,528
Unamortized investment tax credits	91	174
Currency translation adjustments	333	303
Other	1,244	2,140
Deferred tax assets	3,375	5,145
Deferred tax assets valuation allowance	36	70
Net deferred tax liabilities	\$1,332	\$ 909

The decrease in the valuation allowance is the result of an evaluation of the uncertainty associated with the realization of certain deferred tax assets. The valuation allowance is maintained in deferred tax assets for certain unused federal and state loss carryforwards.

The components of income tax expense are as follows:

	1998	1997	1996
Federal:			
Current	\$1,583	\$786	\$1,443
Deferred – net	437	76	364
Amortization of investment tax credits	(72)	(82)	(82)
	1,948	780	1,725
State and local:			
Current	262	41	224
Deferred – net	96	163	121
	358	204	345
Total	\$2,306	\$984	\$2,070

A reconciliation of income tax expense and the amount computed by applying the statutory federal income tax rate (35%) to income before income taxes, extraordinary loss and cumulative effect of accounting change is as follows:

	1998	1997	1996
Taxes computed at federal statutory rate	\$2,231	\$930	\$1,910
Increases (decreases) in income taxes resulting from:			
Amortization of investment tax credits over the life of the plant that gave rise to the credits	(47)	(53)	(53)
State and local income taxes – net of federal income tax benefit	233	133	224
Other – net	(111)	(26)	(11)
Total	\$2,306	\$984	\$2,070

NOTE 13. EMPLOYEE BENEFITS

Pensions – Substantially all employees of SBC are covered by one of various noncontributory pension and death benefit plans. The pension benefit formula used in the determination of pension cost for nonmanagement employees is based on a flat dollar amount per year of service according to job classification. For PAC managers, benefits accrue in separate account balances based on a fixed percentage of each employee's monthly salary with interest. For all other managers, benefits accrue in separate account balances based on a fixed percentage of each employee's monthly salary plus interest or are determined based upon a stated percentage of adjusted career income. Both the bargaining-unit and management employees of SNET have a cash balance pension plan. Accordingly, pension benefits are determined as a single account balance and grow each year with pay and interest credits.

SBC's objective in funding the plans, in combination with the standards of the Employee Retirement Income Security Act of 1974 (as amended), is to accumulate funds sufficient to meet its benefit obligations to employees upon their retirement. Contributions to the plans are made to a trust for the benefit of plan participants. Plan assets consist primarily of stocks, U.S. government and domestic corporate bonds, index funds and real estate.

The following table presents the change in the pension plan benefit obligation for the years ended December 31:

	1998	1997
Benefit obligation at beginning of the year	\$18,116	\$16,330
Service cost – benefits earned during the period	339	300
Interest cost on projected benefit obligation	1,265	1,237
Amendments	254	402
Actuarial gain	566	1,398
Special termination benefits	53	—
Benefits paid	(1,723)	(1,551)
Benefit obligation at end of year	\$18,870	\$18,116

The following table presents the change in pension plan assets for the years ended December 31 and the pension plans' funded status at December 31:

	1998	1997
Fair value of plan assets at beginning of the year	\$24,998	\$22,428
Actual return on plan assets	3,753	4,111
Benefits paid	(1,720)	(1,541)
Fair value of plan assets at end of year	\$27,031	\$24,998
Funded status	\$ 8,161	\$ 6,882
Unrecognized prior service cost	1,312	1,221
Unrecognized net gain	(8,327)	(7,081)
Unamortized transition asset	(759)	(895)
Prepaid pension cost	\$ 387	\$ 127

The following table presents amounts recognized in SBC's Consolidated Balance Sheets at December 31:

	1998	1997
Prepaid pension cost	\$ 819	\$ 545
Accrued pension liability	(432)	(418)
Net amount recognized	\$ 387	\$ 127

Net pension cost is composed of the following:

	1998	1997	1996
Service cost – benefits earned during the period	\$ 339	\$ 300	\$ 317
Interest cost on projected benefit obligation	1,265	1,237	1,226
Expected return on plan assets	(1,771)	(1,640)	(1,664)
Amortization of prior service cost	27	15	(19)
Recognized actuarial gain	(99)	(115)	(92)
Net pension benefit	\$ (239)	\$ (203)	\$ (232)

Significant weighted average assumptions used in developing pension information include:

	1998	1997	1996
Discount rate for determining projected benefit obligation	7.0%	7.25%	7.5%
Long-term rate of return on plan assets	8.5%	8.5%	8.5%
Composite rate of compensation increase	4.3%	4.3%	4.3%

The projected benefit obligation is the actuarial present value of all benefits attributed by the pension benefit formula to previously rendered employee service. It is measured based on assumptions concerning future interest rates and employee compensation levels. Should actual experience differ from the actuarial assumptions, the benefit obligation will be affected.

In April 1997, management amended the pension plan for non-PAC managers to a cash balance pension plan effective June 1, 1997. Under the new plan, participants accrue benefits based on a percentage of pay plus interest. In addition, a transition benefit is phased in over five years. The new plan also requires computation of a grandfathered benefit using the old formula for five years. Participants receive the greater of the cash balance benefit or the grandfathered benefit. The new cash balance plan allows lump sum benefit payments in addition to annuities. This change did not have a significant impact on SBC's net income for 1997.

In March 1996, management amended the pension plan for PAC managers from a final pay plan to a cash balance plan effective July 1, 1996. An enhanced transition benefit, based on frozen pay and service as of June 30, 1996, was established to preserve benefits already accrued by salaried employees under the final pay plan and resulted in an increase in earned benefits for most employees. SBC also updated the actuarial assumptions used in valuing the PAC plans to reflect changes in market interest rates and recent experience, including a change in its assumption

concerning future ad hoc increases in pension benefits. Taken together, these changes increased net income by approximately \$125 during 1996.

Approximately 4,200 employees left PacBell during 1996 under retirement or voluntary and involuntary severance programs and received special pension benefits and cash incentives in connection with the PacBell restructuring and related force reduction programs. Annual pension cost excludes \$64 of additional pension benefits charged to PacBell's restructuring reserve in 1996.

During 1997, a significant amount of lump sum pension payments resulted in a partial settlement of PAC's pension plans. Therefore, net settlement gains in the amount of \$299 were recognized in 1997. Of this amount, \$152 was recognized in the first quarter of 1997 and related primarily to managers who terminated employment in 1996. These gains are not included in the net pension cost shown in the preceding table.

In connection with a voluntary early-out offer that provided enhanced pension benefits, approximately 1,135 employees left SNET during 1996. Annual pension cost excludes \$65 of net settlement gains charged to SNET's restructuring reserve in 1996.

Supplemental Retirement Plans – SBC also provides senior and middle management employees with nonqualified, unfunded supplemental retirement and savings plans. These plans include supplemental defined pension benefits as well as compensation deferral plans, some of which include a corresponding match by SBC based on a percentage of the compensation deferral. Expenses related to these plans were \$105, \$90 and \$90 in 1998, 1997 and 1996. Liabilities of \$1,008 and \$897 related to these plans have been included in other noncurrent liabilities in SBC's Consolidated Balance Sheets at December 31, 1998 and 1997.

Postretirement Benefits – SBC provides certain medical, dental and life insurance benefits to substantially all retired employees under various plans and accrues actuarially determined post-retirement benefit costs as active employees earn these benefits. Employees retiring after certain dates will pay a share of the costs of medical coverage that exceed a defined dollar medical cap. Such future cost-sharing provisions have been reflected in determining SBC's postretirement benefit costs. SBC maintains Voluntary Employee Beneficiary Association trusts to fund postretirement benefits. Assets consist principally of stocks and U.S. government and corporate bonds.

The following table sets forth the change in the benefit obligation for the years ended December 31:

	1998	1997
Benefit obligation at beginning of the year	\$7,701	\$7,112
Service cost – benefits earned during the period	109	106
Interest cost on projected benefit obligation	537	516
Amendments	363	(48)
Actuarial gain	(220)	397
Benefits paid	(410)	(382)
Benefit obligation at end of year	\$8,080	\$7,701

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Dollars in millions except per share amounts

The following table sets forth the change in plan assets for the years ended December 31 and the plans' funded status at December 31:

	1998	1997
Fair value of plan assets at beginning of the year	\$ 3,826	\$ 2,926
Actual return on plan assets	847	677
Employer contribution	354	462
Benefits paid	(248)	(239)
Fair value of plan assets at end of year	\$ 4,779	\$ 3,826
Funded status	\$(3,301)	\$(3,875)
Unrecognized prior service cost	286	(13)
Unrecognized net gain	(1,912)	(1,175)
Accrued postretirement benefit obligation	\$(4,927)	\$(5,063)

Postretirement benefit cost is composed of the following:

	1998	1997	1996
Service cost – benefits earned during the period	\$ 109	\$ 106	\$ 105
Interest cost on accumulated postretirement benefit obligation (APBO)	537	516	512
Expected return on assets	(272)	(220)	(181)
Other – net	6	(14)	5
Postretirement benefit cost	\$ 380	\$ 388	\$ 441

The fair value of plan assets restricted to the payment of life insurance benefits was \$844 and \$987 at December 31, 1998 and 1997. At December 31, 1998 and 1997, the accrued life insurance benefits included in the APBO benefit obligation were \$367 and \$93.

The assumed medical cost trend rate in 1999 is 7.0%, decreasing linearly to 5.5% in 2002, prior to adjustment for cost-sharing provisions of the medical and dental plans for active and certain recently retired employees. The assumed dental cost trend rate in 1999 is 5.75%, reducing to 5.0% in 2002. Raising the annual medical and dental cost trend rates by one percentage point increases the APBO as of December 31, 1998 by \$488 and increases the aggregate service and interest cost components of the net periodic postretirement benefit cost for 1998 by approximately \$34. Decreasing the annual medical and dental cost trend rates by one percentage point decreases the APBO as of December 31, 1998 by \$408 and decreases the aggregate service and interest cost components of the net periodic postretirement benefit cost for 1998 by approximately \$27. Significant assumptions for the discount rate, long-term rate of return on plan assets and composite rate of compensation increase used in developing the APBO and related postretirement benefit costs were the same as those used in developing the pension information.

NOTE 14. OTHER EMPLOYEE BENEFITS

Employee Stock Ownership Plans – SBC maintains contributory savings plans which cover substantially all employees. Under the savings plans, SBC matches a stated percentage of eligible employee contributions, subject to a specified ceiling.

SBC has four leveraged ESOPs as part of the existing savings plans. Two of the ESOPs were funded with notes issued by the savings plans to various lenders, the proceeds of which were used to purchase shares of SBC's common stock in the open market. These notes are unconditionally guaranteed by SBC and therefore presented as a reduction to shareowners' equity and an increase in long-term debt. They will be repaid with SBC contributions to the savings plans, dividends paid on SBC shares and interest earned on funds held by the ESOPs.

The third ESOP purchased PAC treasury shares in exchange for a promissory note from the plan to PAC. Since PAC is the lender, this note is not reflected as a liability and the remaining cost of unallocated trust shares is carried as a reduction of shareowners' equity. Principal and interest on the note are paid from employer contributions and dividends received by the trust. All PAC shares were exchanged for SBC shares effective with the merger April 1, 1997. The provisions of the ESOP were unaffected by this exchange.

The fourth ESOP acquired SNET shares with the proceeds of notes issued by the savings plans, which SNET guaranteed, through a third party. The SNET common stock was acquired through open market purchases, in exchange for a promissory note from the plan to SNET. SNET periodically makes cash payments to the ESOP that, together with dividends received on shares held by the ESOP, are used to make interest and principal payments on both loans. All SNET shares were exchanged for SBC shares effective with the merger October 26, 1998. The provisions of the ESOP were unaffected by this exchange.

SBC's match of employee contributions to the savings plans is fulfilled with shares of stock allocated from the ESOPs and with purchases of SBC's stock in the open market. Shares held by the ESOPs are released for allocation to the accounts of employees as employer matching contributions are earned. Benefit cost is based on a combination of the contributions to the savings plans and the cost of shares allocated to participating employees' accounts. Both benefit cost and interest expense on the notes are reduced by dividends on SBC's shares held by the ESOPs and interest earned on the ESOPs' funds.

Information related to the ESOPs and the savings plans is summarized below:

	1998	1997	1996
Benefit expense – net of dividends and interest income	\$ 55	\$ 59	\$ 76
Interest expense – net of dividends and interest income	16	21	30
Total expense	\$ 71	\$ 80	\$106
Company contributions for ESOPs	\$110	\$112	\$121
Dividends and interest income for debt service	\$ 58	\$ 63	\$ 67

SBC shares held by the ESOPs are summarized as follows at December 31:

	1998	1997
Unallocated	11,505,123	17,210,803
Committed to be allocated	1,245,335	282,388
Allocated to participants	47,425,671	45,966,307
Total	60,176,129	63,459,498

NOTE 15. STOCK-BASED COMPENSATION

Under various SBC plans, senior and other management employees and non-employee directors have received stock options, SARs, performance shares and nonvested stock units to purchase shares of SBC common stock. Options issued through December 31, 1998 carry exercise prices equal to the market price of the stock at the date of grant and have maximum terms ranging from five to ten years. Depending upon the grant, vesting of options may occur up to four years from the date of grant. Performance shares are granted to key employees in the form of common stock and/or in cash based upon the price of common stock at date of grant and are awarded at the end of a two- or three-year period, subject to the achievement of certain performance goals. Nonvested stock units also are valued at market price of the stock at date of grant and vest over a three-year period. Up to 206 million shares may be issued under these plans.

In 1996, SBC elected to continue measuring compensation cost for these plans using the intrinsic value-based method of accounting prescribed in Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation" (FAS 123). Accordingly, no compensation cost for SBC's stock option plans has been recognized. The compensation cost that has been charged against income for SBC's other stock-based compensation plans, primarily SARs and nonvested stock units, totaled \$45, \$43 and \$22 for 1998, 1997 and 1996. Had compensation cost for stock option plans been recognized using the fair value based method of accounting at the date of grant for awards in 1998, 1997 and 1996 as defined by FAS 123, SBC's net income would have been \$3,921, \$1,597 and \$3,445, and basic net income per share would have been \$2.00, \$0.82 and \$1.76.

Options and SARs held by the continuing employees of PAC at the time of the AirTouch spin-off were supplemented with an equal number of options and SARs for common shares of spun-off operations. The exercise prices for outstanding options and SARs held by continuing employees of PAC were adjusted downward to reflect the value of the supplemental spun-off operations' options and SARs. The balance sheet reflects a related liability equal to the difference between the current market price of spun-off operations stock and the exercise prices of the supplemental options outstanding (see Note 11). As of December 31, 1998, 459,916 supplemental spun-off operations options and SARs were outstanding with expiration dates ranging from 1999 to 2003. Outstanding options and SARs that were held by employees of the wireless operations at the spin-off date were replaced by options and SARs for common shares of spun-off operations. The spun-off operations assumed liability for these replacement options and SARs.

For purposes of these pro forma disclosures, the estimated fair value of the options granted after 1994 is amortized to expense over the options' vesting period. Because most employee options vest over a two- to four-year period, these disclosures will not be indicative of future pro forma amounts until the FAS 123 rules are applied to all outstanding non-vested awards. The fair value for these options was estimated at the date of grant, using a Black-Scholes option pricing model with the following weighted-average assumptions used for grants in 1998, 1997 and 1996: risk-free interest rate of 5.72%, 6.56% and 6.25%; dividend yield of 2.21%, 3.07% and 4.91%; expected volatility factor of 15%, 15% and 18%; and expected option life of 5.3, 5.8 and 4.7 years.

Information related to options and SARs is summarized below:

	Number	Weighted Average Exercise Price
Outstanding at January 1, 1996	60,648,949	\$20.89
Granted	25,035,921	23.00
Exercised	(3,979,290)	18.73
Forfeited/Expired	(2,159,301)	21.59
Outstanding at December 31, 1996 (35,522,826 exercisable at weighted average price of \$20.13)	79,546,279	21.64
Granted	33,560,019	27.28
Exercised	(17,548,592)	20.51
Forfeited/Expired	(4,817,751)	25.16
Outstanding at December 31, 1997 (40,802,392 exercisable at weighted average price of \$21.02)	90,739,955	23.76
Granted	21,756,535	42.51
Exercised	(16,853,425)	22.13
Forfeited/Expired	(4,591,616)	31.08
Outstanding at December 31, 1998 (47,493,729 exercisable at weighted average price of \$22.31)	91,051,449	\$28.17

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Dollars in millions except per share amounts

Information related to options and SARs outstanding at December 31, 1998:

	\$13.50	\$17.50	\$26.00	\$34.00
Exercise Price Range	– \$17.49	– \$25.99	– \$33.99	– \$43.00
Number of options and SARs:				
Outstanding	3,492,843	41,277,620	25,901,002	20,379,984
Exercisable	3,492,843	41,277,620	2,639,149	84,117
Weighted average exercise price:				
Outstanding	\$16.51	\$22.39	\$27.60	\$42.59
Exercisable	\$16.51	\$22.39	\$28.21	\$42.00
Weighted average remaining contractual life	3.43 years	6.38 years	8.31 years	5.97 years

The weighted-average, grant-date fair value of each option granted during 1998, 1997 and 1996 was \$8.62, \$5.57 and \$3.47.

NOTE 16. SHAREOWNERS' EQUITY

Common Stock Split – On January 30, 1998, the Board of Directors of SBC declared a two-for-one stock split, effected in the form of a stock dividend, on the shares of SBC's common stock. Each shareholder of record on February 20, 1998 received an additional share of common stock for each share of common stock then held. The stock was issued March 19, 1998. SBC retained the current par value of \$1.00 per share for all shares of common stock.

NOTE 17. ACQUISITIONS AND DISPOSITIONS

During the third quarter of 1998, SBC sold its interest in MTN to the remaining shareholders of MTN for \$337. The sale fulfilled SBC's obligation to divest MTN as a requirement of the acquisition of Telkom. The effect on other income (expense) – net and net income from the sale of MTN was \$250 and \$162. See Note 7 for the disposition of SBC's interest in Telewest.

In May 1997, a consortium made up of SBC and Telekom Malaysia Berhad, 60% owned by SBC, completed the purchase of 30% of Telkom. SBC invested approximately \$760, approximately \$600 of which will remain in Telkom.

During 1996, SBC received several AT&T Corp. cellular networks in Arkansas in exchange for SBC's PCS licenses in Memphis and Little Rock and other consideration.

These acquisitions were primarily accounted for under the purchase method of accounting. The purchase prices in excess of the underlying fair value of identifiable net assets acquired are being amortized over periods not to exceed 40 years. Results of operations of the properties acquired have been included in the consolidated financial statements from their respective dates of acquisition.

The above developments did not have a significant impact on consolidated results of operations for 1998, 1997 or 1996, nor would they had they occurred on January 1 of the respective periods.

On January 20, 1999, SBC announced it has agreed to acquire Comcast Cellular Corporation (Comcast Cellular), the wireless subsidiary of Comcast Corporation, in a transaction valued at \$1,674. Under the terms of the agreement, SBC will pay \$400 in cash and assume Comcast Cellular's current debt of \$1,274. The transaction will be accounted for through the purchase accounting method. Comcast Cellular offers analog and digital wireless services to more than 800,000 subscribers in Pennsylvania, Delaware, New Jersey and Illinois. The largest market in which Comcast Cellular operates is Philadelphia, Pennsylvania. SBC for several years has been operating the Illinois properties it is purchasing under a previous agreement between the two companies. The transaction, which is subject to regulatory approvals, is expected to be completed by the end of 1999.

NOTE 18. ADDITIONAL FINANCIAL INFORMATION

	December 31,		
	1998	1997	1996
Balance Sheets			
Accounts payable and accrued liabilities:			
Accounts payable	\$2,865	\$3,115	
Accrued taxes	1,206	1,118	
Advance billing and customer deposits	855	764	
Compensated future absences	568	558	
Accrued interest	249	326	
Accrued payroll	338	315	
Other	1,899	2,134	
Total	\$7,980	\$8,330	
Statements of Income	1998	1997	1996
Advertising expense	\$ 594	\$ 558	\$ 400
Interest expense incurred	\$1,052	\$ 1,168	\$1,043
Capitalized interest	(59)	(125)	(142)
Total interest expense	\$ 993	\$ 1,043	\$ 901
Statements of Cash Flows	1998	1997	1996
Cash paid during the year for:			
Interest	\$1,070	\$ 1,014	\$ 888
Income taxes, net of refunds	\$1,721	\$ 489	\$1,367

No customer accounted for more than 10% of consolidated revenues in 1998, 1997 or 1996.

Several subsidiaries of SBC have negotiated contracts with the Communications Workers of America (CWA), none of which is subject to renegotiation in 1999. Approximately two-thirds of SBC's employees are represented by the CWA.

NOTE 19. QUARTERLY FINANCIAL INFORMATION (UNAUDITED)

Calendar Quarter	Total Operating Revenues	Operating Income (Loss)	Net Income (Loss)	Basic Earnings (Loss) Per Common Share	Stock Price		
					High	Low	Close
1998							
First ¹	\$ 6,855	\$1,775	\$ 985	\$0.50	\$46.563	\$35.375	\$43.375
Second	7,030	1,817	1,020	0.52	44.938	37.125	40.000
Third ²	7,216	1,903	1,262	0.65	44.875	35.000	44.375
Fourth ^{1,2}	7,676	1,391	756	0.39	54.875	41.125	53.625
Annual ^{1,2}	\$28,777	\$6,886	\$4,023	\$2.06			
1997³							
First	\$ 6,405	\$ 1,685	\$ 901	\$ 0.46	\$ 29.125	\$ 24.813	\$ 26.250
Second	6,372	(831)	(736)	(0.38)	30.938	24.625	30.938
Third	6,790	1,573	867	0.45	31.125	26.781	30.719
Fourth	7,114	1,151	642	0.33	38.063	30.000	36.625
Annual	\$ 26,681	\$ 3,578	\$ 1,674	\$ 0.86			

¹Net Income and Earnings per Common Share reflect a cumulative effect of accounting change of \$15, or \$0.01 per share in the first quarter from a change in accounting for directory operations and an extraordinary loss on retirement of debt of \$60, or \$0.03 per share in the fourth quarter.

²Net income in the third quarter includes after-tax gains of \$219 for gains on sales of certain non-core businesses, principally the required disposition of MTN, due to SBC's investment in Telkom. Net income in the fourth quarter also includes \$268 of charges related to strategic initiatives resulting from the merger integration process with SNET.

³Net income (loss) includes \$90 in first quarter pension settlement gain for 1996 retirements (see Note 13), \$1.6 billion in second quarter charges related to post-merger initiatives (see Note 2), \$10 and \$294 in third and fourth quarter merger integration costs and \$33 in fourth quarter gain on sale of SBC's interests in Bellcore.

REPORT OF INDEPENDENT AUDITORS

The Board of Directors and Shareowners
SBC Communications Inc.

We have audited the accompanying consolidated balance sheets of SBC Communications Inc. (the Company) as of December 31, 1998 and 1997, and the related consolidated statements of income, shareowners' equity, and cash flows for each of the three years in the period ended December 31, 1998. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We did not audit the 1996 financial statements of Pacific Telesis Group, a wholly-owned subsidiary, which statements reflect total operating revenues constituting approximately 38% of the Company's related consolidated financial statement total for the year ended December 31, 1996. Those statements were audited by other auditors whose report, which has been furnished to us, included an explanatory paragraph that describes the change in its method of recognizing directory publishing revenues and related expenses. Our opinion, insofar as it relates to the 1996 data included for Pacific Telesis Group, is based solely on the report of the other auditors.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits and the report of other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audits and, for 1996, the report of other auditors, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of SBC Communications Inc. at December 31, 1998 and 1997, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 1998, in conformity with generally accepted accounting principles.

Ernst & Young LLP

San Antonio, Texas
February 12, 1999

REPORT OF MANAGEMENT

The consolidated financial statements have been prepared in conformity with generally accepted accounting principles. The integrity and objectivity of the data in these financial statements, including estimates and judgments relating to matters not concluded by year end, are the responsibility of management, as is all other information included in the Annual Report, unless otherwise indicated.

The financial statements of SBC Communications Inc. (SBC) have been audited by Ernst & Young LLP, independent auditors. Management has made available to Ernst & Young LLP all of SBC's financial records and related data, as well as the minutes of shareowners' and directors' meetings. Furthermore, management believes that all representations made to Ernst & Young LLP during its audit were valid and appropriate.

Management has established and maintains a system of internal accounting controls that provides reasonable assurance as to the integrity and reliability of the financial statements, the protection of assets from unauthorized use or disposition and the prevention and detection of fraudulent financial reporting. The concept of reasonable assurance recognizes that the costs of an internal accounting controls system should not exceed, in management's judgment, the benefits to be derived.

Management also seeks to ensure the objectivity and integrity of its financial data by the careful selection of its managers, by organizational arrangements that provide an appropriate division of responsibility and by communication programs aimed at ensuring that its policies, standards and managerial authorities are understood throughout the organization. Management continually monitors the system of internal accounting controls for compliance. SBC maintains an internal auditing program that independently assesses the effectiveness of the internal accounting controls and recommends improvements thereto.

The Audit Committee of the Board of Directors, which consists of eight directors who are not employees, meets periodically with management, the internal auditors and the independent auditors to review the manner in which they are performing their responsibilities and to discuss auditing, internal accounting controls and financial reporting matters. Both the internal auditors and the independent auditors periodically meet alone with the Audit Committee and have access to the Audit Committee at any time.

Edward E. Whitacre Jr.

Edward E. Whitacre Jr.
Chairman of the Board and
Chief Executive Officer

Donald E. Kiernan

Donald E. Kiernan
Senior Vice President, Treasurer
and Chief Financial Officer

SBC BOARD OF DIRECTORS

Edward E. Whitacre Jr., 57^(2, 4, 5)



Chairman of the Board
and Chief Executive
Officer
SBC Communications Inc.
San Antonio, Texas
SBC Director since October 1986
Background: Telecommunications

Gilbert F. Amelio, Ph.D., 56⁽³⁾



Partner
The Parkside Group, LLC
Principal
Aircraft Ventures, LLC
San Francisco, California
Advisory Director since April 1997
PTG Director 1995-1997
Background: Technology, electronics
engineering

Clarence C. Barksdale, 66^(1, 3)



Vice Chairman,
Board of Trustees
Washington University
St. Louis, Missouri
SBC Director since October 1983
SWBT Director 1982-1983
Background: Banking

James E. Barnes, 65^(1, 2)



Chairman of the Board,
President and
Chief Executive Officer
(Retired)
MAPCO Inc.
Tulsa, Oklahoma
SBC Director since November 1990
Background: Diversified energy

August A. Busch III, 61^(2, 4, 6)



Chairman of the
Board and President
Anheuser-Busch
Companies, Inc.
St. Louis, Missouri
SBC Director since October 1983
SWBT Director 1980-1983
Background: Brewing, family
entertainment, transportation,
manufacturer of aluminum
beverage containers

Royce S. Caldwell, 60^(4, 5)



President-SBC Operations
SBC Communications Inc.
San Antonio, Texas
SBC Director since
April 1997

Background: Telecommunications

Ruben R. Cardenas, 68^(1, 3)



Partner
Cardenas, Whitis &
Stephen, L.L.P.
McAllen, Texas
SBC Director since October 1983
SWBT Director 1975-1983
Background: Law

The Honorable

William P. Clark, 67^(2, 3)



Chief Executive Officer
Clark Company
Senior Counsel
Clark, Cali and Negranti
Paso Robles, California
SBC Director since April 1997
PTG Director 1985-1997
Background: Law, ranching

Martin K. Eby, Jr., 64^(1, 5)



Chairman of the Board and
Chief Executive Officer
The Eby Corporation
Wichita, Kansas
SBC Director since June 1992
Background: General building
construction

Herman E. Gallegos, 68^(1, 3)



Independent
Management
Consultant
Brisbane, California
SBC Director since April 1997
PTG Director 1983-1997
Background: Management
consulting

Jess T. Hay, 68^(1, 6)



Chairman
Texas Foundation for
Higher Education
Chairman
HCB Enterprises Inc
Dallas, Texas
SBC Director since April 1986
Background: Financial services

Admiral Bobby R. Inman, 67^(5, 6)



United States Navy, Retired
Austin, Texas
SBC Director since
March 1985
Background: Private investment

Charles F. Knight, 63^(2, 4, 5)



Chairman and
Chief Executive Officer
Emerson Electric Co.
St. Louis, Missouri
SBC Director since October 1983
SWBT Director 1974-1983
Background: Electrical
manufacturing

Mary S. Metz, Ph.D., 61⁽¹⁾



President
S. H. Cowell Foundation
San Francisco, California
SBC Director since
April 1997
PTG Director 1986-1997
Background: Education,
administration

Dr. Haskell M. Monroe, Jr., 67^(3, 5)



Dean of Faculties Emeritus
and Director of the A&M
Heritage Preservation
Program
Texas A&M University
College Station, Texas
SBC Director since October 1983
SWBT Director 1982-1983
Background: Education,
administration

Toni Rembe, Esq., 62⁽³⁾



Partner
Pillsbury Madison &
Sutro LLP
San Francisco, California
SBC Director since January 1998
Advisory Director 1997-1998
PTG Director 1991-1997
Background: Law

S. Donley Ritchey, 65^(5, 6)



Managing Partner
Alpine Partners
Chairman and Chief
Executive Officer
(Retired)

Lucky Stores, Inc.
Danville, California
SBC Director since April 1997
PTG Director 1984-1997
Background: Diversified retail

Joyce M. Roché, 51^(1, 3)



Independent Consultant
Savannah, Georgia
SBC Director since
October 1998
SNET Director 1997-1998
Background: Manufacturing and
marketing of personal care
products

Richard M. Rosenberg, 68^(2, 5)



Chairman and Chief
Executive Officer
(Retired)
BankAmerica
Corporation
San Francisco, California
SBC Director since April 1997
PTG Director 1994-1997
Background: Banking

Ing. Carlos Slim Helú, 59^(3, 5)



Chairman of the Board
Teléfonos de México,
S.A. de C.V.
Chairman Emeritus
Grupo Carso, S.A. de C.V.
Mexico City, Mexico
SBC Director since September 1993
Background: Telecommunications,
consumer goods, automobile
parts, construction, retailing

Patricia P. Upton, 60^(1, 3)



President and
Chief Executive Officer
Aromatique, Inc.
Heber Springs, Arkansas
SBC Director since June 1993
Background: Manufacturing and
marketing of decorative home
fragrances

Committees of the Board:

- (1) Audit
- (2) Corporate Development
- (3) Corporate Public Policy
and Environmental Affairs
- (4) Executive
- (5) Finance/Pension
- (6) Human Resources

EXECUTIVES OF SBC AND ITS SUBSIDIARIES

SBC Senior Executives

Edward E. Whitacre Jr., 57
Chairman & CEO
SBC Communications Inc.

Royce S. Caldwell, 60
President-SBC Operations
SBC Communications Inc.

Cassandra C. Carr, 54
Sr. Executive Vice President-
External Affairs
SBC Communications Inc.

J. Cliff Eason, 51
President-SBC International
SBC Communications Inc.

James D. Ellis, 55
Sr. Executive Vice President &
General Counsel
SBC Communications Inc.

Charles E. Foster, 62
Group President-SBC
SBC Communications Inc.

Karen E. Jennings, 48
Sr. Vice President-Human Resources
SBC Communications Inc.

James S. Kahan, 51
Sr. Vice President-Corporate
Development
SBC Communications Inc.

Donald E. Kiernan, 58
Sr. Vice President, Treasurer & CFO
SBC Communications Inc.

Linda S. Mills, 47
Sr. Vice President-
Corporate Communications
SBC Communications Inc.

Stanley T. Sigman, 51
President & CEO
SBC Wireless Inc.

Other Executives

Wayne S. Alexander, 50
President-Asia Pacific
SBC Operations Inc.

John H. Atterbury, 51
President & CEO
Southwestern Bell Telephone Company

Terry D. Bailey, 43
President-Oklahoma
Southwestern Bell Telephone Company

Thomas M. Barry, 54
President-SBCI (Telkom South Africa)
SBC International, Inc.

William A. Blase, 43
Vice President-Regulatory
Pacific Telesis

Rickford D. Bradley, 47
President
SBC Center for Learning

Blaine Bull, 41
Sr. Vice President-Public Affairs
SBC Communications Inc.

James W. Callaway, 52
President-California
Pacific Telesis

Stephen M. Carter, 45
President-Strategic Markets
SBC Operations Inc.

Lea Ann Champion, 40
President-Consumer Communications
Services
Southwestern Bell Telephone Company

David A. Cole, 50
President-Texas
Southwestern Bell Telephone Company

Liam S. Coonan, 63
Sr. Vice President & Asst. General Counsel
SBC Communications Inc.

Wilbur Crossley, 55
Vice President-Network (Telkom
South Africa)
SBC International, Inc.

Patricia Diaz Dennis, 52
Sr. Vice President-Regulatory &
Public Affairs
SBC Communications Inc.

Richard C. Dietz, 52
President-SBCI (Mexico)
SBC International, Inc.

Kathy L. Dowling, 43
Regional President-Northeast Wireless
Cellular One

Melanie S. Fannin, 48
Vice Pres. & Gen. Counsel-External
Affairs-TX
Southwestern Bell Telephone Company

Robert Ferguson, 39
Sr. Vice President-Federal Relations
SBC Telecommunications, Inc.

James D. Gallemore, 47
Executive Vice President-Strategic
Marketing
SBC Operations Inc.

Michael N. Gilliam, 46
Vice President-Year 2000 Project &
Gatekeeper
SBC Services, Inc.

Edward L. Glotzbach, 50
Executive Vice Pres. & Chief Information
Officer
SBC Services, Inc.

William J. Hannigan, 39
President-Business Communications
Services
Southwestern Bell Telephone Company

Timothy S. Harden, 45
Vice President & General Manager-
Operations
SBC Operations Inc.

Priscilla Hill-Ardoin, 47
President-Missouri
Southwestern Bell Telephone Company

Ross K. Ireland, 51
Vice President-Network Planning &
Engineering
Pacific Telesis

Ronald M. Jennings, 57
Vice Pres. & Gen. Mgr.-Pub.
Communications
SBC Telecommunications, Inc.

Martin A. Kaplan, 61
Executive Vice President-SBC
SBC Communications Inc.

Michael Kaufman, 53
President-Consumer Markets Group
Pacific Bell

Sandy Kinney, 51
President-Industry Markets
SBC Telecommunications, Inc.

Jonathan P. Klug, 42
President-Arkansas
Southwestern Bell Telephone Company

Richard G. Lindner, 44
Vice President & CFO
Southwestern Bell Telephone Company

David R. Lopez, 47
Vice President-National/Local Regulatory
SBC Operations Inc.

Gary W. Lucas, 54
Vice President-Labor Relations
Southwestern Bell Telephone Company

Robert M. Lynch, 48
Sr. Vice Pres. & Gen. Counsel-
External Affairs
SBC Telecommunications, Inc.

Robin MacGillivray, 43
Vice Pres.-Business Communications
Services
Pacific Bell

Mary T. Manning, 48
Vice President-Corporate Real Estate
SBC Services, Inc.

Norma Martinez Lozano, 42
Vice Pres. & Gen. Manager-
Operator Services
SBC Telecommunications, Inc.

Wayne D. Masters, 53
Vice President-Business Planning
SBC Operations Inc.

William B. McCullough, 47
President & CEO-SWB Wireless
Southwestern Bell Wireless

Shawn M. McKenzie, 40
President-Kansas
Southwestern Bell Telephone Company

Forrest E. Miller, 46
President & CEO
SBC Directory Operations

Tom E. Morgan, 51
President & CEO
Southern New England Telephone Co.

Thomas O. Moulton, Jr., 52
Regional President-Northern &
Central California
Pacific Telesis

Edward A. Mueller, 51
President & CEO
Pacific Bell

Carmen P. Nava, 36
Regional President-Los Angeles
Pacific Telesis

Robert J. Nelson, 40
Regional President-Great Lakes Region
Cellular One

David C. Nichols, 41
Regional President-San Diego
Pacific Telesis

Thomas A. Pall, 59
Vice President-Sales
SBC Directory Operations

T. Michael Payne, 48
Sr. Vice President, General Counsel &
Secretary
Pacific Telesis

Robert B. Pickering, 40
Vice President & CFO
Pacific Bell

Alfred G. Richter, Jr., 48
Sr. Vice Pres. & General Counsel-
Operations
SBC Telecommunications, Inc.

A. Dale Robertson, 50
Sr. Vice President-FCC
SBC Telecommunications, Inc.

Michael A. Rodriguez, 48
Vice President-Labor Relations
Pacific Telesis

Charles J. Roesslein, 50
President & CEO
SBC Technology Resources, Inc.

Drew A. Roy, 52
President-SBCI (Europe & Middle East)
SBC International, Inc.

Judith M. Sahm, 53
Vice President & Secretary
SBC Communications Inc.

Robert W. Shaner, 50
President & CEO
Pacific Bell Mobile Services

James B. Shelley, 45
President-Texas Regulatory
Southwestern Bell Telephone Company

Charles H. Smith, 55
President-Network Services
Pacific Bell

Donna L. Snyder, 47
Sr. Vice Pres., General Counsel & Secretary
Southwestern Bell Telephone Company

Randall Stephenson, 38
Vice President & Controller
SBC Communications Inc.

Joyce M. Taylor, 41
Regional President-Bay Area
Pacific Telesis

Van H. Taylor, 50
Regional President-Network Services
(Midwest)
Southwestern Bell Telephone Company

J. Michael Turner, 49
Exec. Vice Pres.-Corp. Planning &
Capital Mgmt.
SBC Operations Inc.

Joe W. Walkowiak, 51
President-Network Services
Southwestern Bell Telephone Company

Lora K. Watts, 41
President-Nevada
Nevada Bell

Stephen G. Welch, 55
President-Corporate & Administrative
Services
Pacific Telesis

Horace Wilkins Jr., 48
President-Special Markets
SBC Operations Inc.

Rayford Wilkins Jr., 47
President-Business Communications
Services
Pacific Bell

SHAREOWNER INFORMATION

Toll-Free Shareowner Hotline

Call us at 1-800-351-7221 between 9 a.m. and 8 p.m. Eastern Time Monday through Friday.
TDD 1-888-269-5221

We can help with:

- account inquiries
- requests for assistance, including stock transfers
- information on the SBC Direct Stock Purchase and Reinvestment Plan

Written Requests

Please mail all account inquiries and other requests for assistance with regard to your stock ownership to:

SBC Communications Inc.
c/o First Chicago Trust Division of EquiServe
P.O. Box 2508
Jersey City, New Jersey 07303-2508

Please mail requests for transactions involving stock transfers or account changes to:

SBC Communications Inc.
c/o First Chicago Trust Division of EquiServe
P.O. Box 2589
Jersey City, New Jersey 07303-2589

You also may reach First Chicago Trust Company, the Transfer Agent for SBC, at our e-mail address:
sbcfct@em.fcncb.com

SBC Direct Stock Purchase and Reinvestment Plan (SBC Direct)

SBC Direct allows current shareowners to purchase additional SBC stock with a minimum investment of **\$50**. Other persons may also take advantage of this feature with a minimum initial investment of **\$500**. SBC Direct has many other convenient features including automatic monthly investments, dividend reinvestment, direct deposit of dividends and an Individual Retirement Account.

For more information or a prospectus, call 1-800-351-7221.

Send optional cash investments to:

SBC Direct
c/o First Chicago Trust Division of EquiServe
P.O. Box 13531
Newark, New Jersey 07102-0001

Stock Trading Information

SBC is listed on the New York, Chicago and Pacific stock exchanges and The Swiss Exchange. SBC is traded on the London Stock Exchange through the SEAQ International Markets facility.

Ticker symbol (NYSE): SBC

Newspaper stock listing:
SBC or SBC Comm

Information on the Internet

Information about SBC is available on the Internet. Visit our home page on the World Wide Web:
<http://www.sbc.com>

Annual Meeting

The annual meeting of shareowners will be held at 9:00 a.m. Friday, April 30, 1999, at:

Alzafar Shrine Temple
901 North Loop 1604 West
San Antonio, Texas 78216

Independent Auditors

Ernst & Young LLP
1900 Frost Bank Tower
100 W. Houston
San Antonio, Texas 78205

Requests for 10-K

The SBC, Southwestern Bell Telephone Company and Pacific Bell Forms 10-K, filed with the Securities and Exchange Commission, are available on request.

Investor Relations

Security analysts and other members of the professional financial community may call the Investor Relations Hotline: 210-351-2044

General Information — Corporate Offices

SBC Communications Inc.
175 E. Houston
P.O. Box 2933
San Antonio, Texas 78299-2933
210-821-4105

SBC Communications Inc.
175 E. Houston
P.O. Box 2933
San Antonio, Texas 78299-2933
210-821-4105

EXHIBIT D

Managerial Capabilities

RONALD L. BLAKE, President

Ronald L. Blake, President of SBC Telecom, began his career as an Assistant Staff Manager of Revenue Requirements for Wisconsin Bell in 1979. From 1981 to 1988, he held several management assignments in investment research, financial planning, corporate accounting and consumer marketing for AT&T, Ameritech and Wisconsin Bell. He was promoted to Assistant Vice President of Marketing for Wisconsin Bell in 1988.

In 1990, Mr. Blake moved to Ameritech Services to become Assistant Vice President of Consumer and Small Business Marketing. He served as Vice President and Treasurer for Ameritech from 1992 to 1994. Following this appointment, he became President of Long Distance Industry Services, where he served until 1995. In 1995, Mr. Blake was promoted to President of Enhanced Business Services, and also served as President of Small Business Services from December 1997 to June 1998. Mr. Blake became President of Ameritech General Business Services in July 1998, where he was responsible for providing retail telecommunications products and services. He was appointed to his current position following the merger of SBC and Ameritech.

PATRICIA DIAZ DENNIS, Sr. Vice President-Regulatory and Public Affairs

Mrs. Dennis joined SBC in 1995 as Senior Vice President and Assistant General Counsel for regulation and law, representing and advising SBC in the areas of state, federal and international law and regulatory policy. In her present position, she is responsible for SBC's national constituency relations and regulatory, legislative, governmental, external affairs and industry relations activities for SBC Telecom. Before joining SBC, Mrs. Dennis was appointed to the Federal Communications Commission by President Reagan and served as a commissioner from 1986 to 1989. Mrs. Dennis also was appointed by President Reagan to serve on the National Labor Relations Board. President Bush appointed her Assistant Secretary of State for Human Rights and Humanitarian Affairs in 1992. Her experience in the telephone industry includes her legal practice as Special Counsel for Communications Matters in Sullivan &

Cromwell's Washington, D.C. office, as well as Partner and Head of the Communications Law Section for the D.C. office of Jones, Day, Reavis & Pogue. Mrs. Dennis was also Vice President for Government Affairs for Sprint Corporation from 1991 to 1992.

TIMOTHY HARDEN, Vice President, Operations

Mr. Harden has over 18 years of telecommunications experience and is responsible for the design, development and deployment of the network and systems necessary to support SBC Telecom's competitive local exchange activities. He also is responsible for the day-to-day operations. SBC Telecom represents Mr. Harden's third "start up" endeavor. He was involved in the start up of PacTel Business Systems as Chief Operating Officer and later as President and CEO. More recently, he served as Vice President & Chief Operating Officer of the Pacific Telesis broadband effort in California where he was responsible for all of the operations of that \$5 billion effort, including network engineering, design and construction; customer care centers; and systems design and implementation. Mr. Harden gained broad telecommunications experience in a series of executive assignments with Pacific Telesis Group and SBC, most recently as Vice President and General Manager of SBC's Industry Operations where he had responsibility for all wholesale operations for access and local (CLEC) customers. Also, he previously served as Vice President and General Manager of Industry Markets, and Vice President and General Manager of the Pacific Bell North Coast Regional Business Unit. Other assignments have included work in operations, special services, customer service, and switching in both Northern and Southern California.

THOMAS W. HARTMANN, Vice President and General Counsel

Mr. Hartmann has been employed as an attorney with SBC since 1995. With SBC, he has served in positions involving litigation, mergers and acquisitions, and international operations. In his present position, Mr. Hartmann is responsible for all legal representation of SBC Telecom throughout the country. Before joining SBC, Mr. Hartmann was on active duty in the United States Air Force where he served as the Chief Prosecutor in the Far East. Mr. Hartmann remains a Colonel in the U.S. Air Force Reserves. He also worked as a litigation associate with the law firm of Bryan Cave in St. Louis, Missouri from 1991 to 1995.

MARK BORIGHT, Vice President-Chief Financial Officer

Mr. Boright joined the SBC family of companies in 1991 and assumed the responsibility of Vice President and Chief Financial Officer of the Cellular One Wireless property in Chicago. Before joining SBC, Mr. Boright fulfilled various management and leadership positions for GTE Mobile Communications and GTE Mobilnet in the area of finance. In 1996, Mr. Boright was appointed Vice President and Chief Financial Officer Southwestern Bell Mobile Systems in Dallas, Texas. Most recently Mr. Boright was named Vice President-Chief Financial Officer of SBC Telecom. Collectively, he possesses over 18 years of financial, accounting and business experience.

PAUL R. ROTH, Vice President

Mr. Roth began his career with Southwestern Bell Telephone in 1981, and has held numerous positions involving outside plant and central office responsibilities. In 1992 he was appointed Director of Operations, and in 1995 he was appointed Vice President and General Manager/Southwestern Bell Wireless. Mr. Roth was appointed President and General Manager, Cellular One, Boston in 1997. Following this appointment, Mr. Roth was appointed as Vice President of Consumer Sales and Services (Midwest) of Southwestern Bell Telephone. He currently serves as Vice President, SBC Telecom. In this role, Mr. Roth is responsible for the direction of the sales initiatives in the SBC Telecom markets and directs the efforts of the customer care functions throughout SBC Telecom's 30 market region.

ROGER W. WOHLERT, Vice President & Treasurer

Mr. Wohlert began his career with Southwestern Bell Telephone Company in 1962 upon graduation from the University of Missouri-Columbia. He has held various positions with the company's Comptroller and Treasury Department in Missouri and Texas, and worked in the Treasury Department of AT&T in New York for three years. He was named an Assistant Treasurer of Southwestern Bell Telephone Company in 1974. In 1984, Mr. Wohlert was appointed Assistant Treasurer-Corporate Finance for Southwestern Bell Corporation, and in April 1988 appointed Managing Director-Finance and Assistant Treasurer. In addition, Mr.

Wohlert holds the position of Treasurer in various subsidiaries, including Southwestern Bell Telephone Company, Pacific Bell, SBC International, Inc. and SBC Telecom.

JAMES DEVRIES, Vice President of Human Resources

Mr. DeVries has extensive experience in human resources administration both inside and outside of the telecommunications industry. Mr. DeVries joined Ameritech more than 4 years ago. His most recent assignment with Ameritech was as Vice President of Human Resources and Corporate Services. In this role, Mr. DeVries was responsible for procurement, logistics, human resources, training, fleet management, and real estate for Ameritech's security monitoring subsidiary. Prior to joining Ameritech Mr. DeVries held positions with the Quaker Oats Company, Leaf Inc., and Andrew Corporation. His experience in these positions includes assignments in compensation, employee relations, training, staffing, labor relations, equal employment opportunity/affirmative action and organization development. In total, Mr. DeVries has 15 years of experience in human resources and employee development.

EXHIBIT E

Small and Minority-Owned Telecommunications Business Participation Plan

SBC TELECOM, INC.

**SMALL AND MINORITY-OWNED TELECOMMUNICATIONS
BUSINESS PARTICIPATION PLAN**

**SUBMITTED TO:
TENNESSEE REGULATORY AUTHORITY**

January, 2000

SBC TELCOM, INC.
SMALL AND MINORITY-OWNED TELECOMMUNICATIONS
BUSINESS PARTICIPATION PLAN

Pursuant to Tennessee Code Annotated §65-5-212, as amended, SBC Telecom, Inc. ("SBC Telecom"), a wholly-owned subsidiary of SBC Communications, Inc. ("SBC") submits the attached **SBC Small, Small Disadvantaged, and Woman-Owned Small Business Subcontracting Plan** (the "Plan") along with its Application for a Certificate of Public Convenience and Necessity to provide facilities-based and resold competing local exchange telecommunications services throughout the State of Tennessee.

SBC Telecom, Inc. will make efforts to identify and use Tennessee Small and Minority-Owned telecommunications businesses within the context of the attached Plan. The terms "Small Business" and "Minority Business" shall have the same meaning as in §65-5-212.

SBC COMMUNICATION INC.

**SMALL, SMALL DISADVANTAGED, AND WOMAN-OWNED
SMALL BUSINESS SUBCONTRACTING PLAN OUTLINE**

1999

**Prepared by:
SBC Supplier Diversity
2600 Camino Ramon, 1E050
San Ramon, CA 94583**

SBC COMMUNICATIONS INC. (SBC)

**Small, Small Disadvantaged, and Woman-Owned
Small Business Subcontracting Plan Outline**

Identification Data:

Company Name:	<u>SBC Communications Inc.</u>
Address:	<u>175 E. Houston, P. O. Box 2933, San Antonio, Texas 78299-2933</u>
Date Prepared:	<u>December 17, 1999</u>
Item/Service:	<u>Telecommunications</u>

1. GOALS

Following are the dollar and percentage goals for small business, small disadvantaged business, and woman-owned small business in the following format.

- A. Estimated dollar value of all planned subcontracting i.e. to all types of business concerns under this contract:

BASE	1st OPTION	2nd OPTION	3rd OPTION	4th OPTION
\$6.3B	\$	\$	\$	\$

- B. Estimated dollar value and percentage of planned subcontracting to small business concerns is:

(*Includes Small Disadvantaged and Woman-owned Small Business)

BASE	1st OPTION	2nd OPTION	3rd OPTION	4th OPTION
\$1.8B	\$	\$	\$	\$
28%	%	%	%	%

- C. Estimated dollar value and percentage of planned subcontracting to small disadvantaged business concerns is:

BASE	1st OPTION	2nd OPTION	3rd OPTION	4th OPTION
\$940M	\$	\$	\$	\$
15%	%	%	%	%

- D. Estimated dollar value and percentage of planned subcontracting to woman-owned small business concerns is:

BASE	1st OPTION	2nd OPTION	3rd OPTION	4th OPTION
\$316M	\$	\$	\$	\$
5%	%	%	%	%

- E. Products and/or services to be subcontracted under this contract, and the types of businesses supplying them, are:

Business Category or Size				
Subcontracted Product/Service	Large	Small	Small Disadvantaged	Woman Owned
SBC will endeavor to purchase from Small, Small Disadvantaged, Woman-owned firms all products and services that meet its diverse needs, e.g., telecommunications products and services, non-telecommunications products and services, and professional services.	X	X	X	X

- F. Following is the method used to develop the subcontracting goals for Small, Small Disadvantaged and Woman-Owned Business concerns:

- **Goals are established for each major product and service category comparing total purchases to Small, Small Disadvantaged and Woman-Owned Business concerns.**
- **The areas to be subcontracted are determined based on SBC's Supplier Diversity guidelines which includes a community outreach process, as well as an internal program which encourages employees to utilize Small, Small Disadvantaged, Woman-Owned Business firms in all purchasing and contracting activities.**

2. PROGRAM ADMINISTRATOR

Name: **Joan Kerr**
Title: **Executive Director - Supplier Diversity Programs**
Address: **2600 Camino Ramon, Rm. 1E104, San Ramon, CA 94583**
Telephone: **(925) 824-5507**

Duties: The Program Administrator shall have general overall responsibility for the Contractors subcontracting program. These duties include but are not limited to, the following activities.

- A. Developing and promoting company policy statements that demonstrate the company's support for awarding contracts and subcontracts to small, small disadvantaged, and woman-owned small business concerns.

- B. Developing and maintaining bidder's lists of small, small disadvantaged, and woman-owned small business concerns from all possible sources.
- C. Ensuring periodic rotation of potential subcontractors on bidder's lists.
- D. Assuring that small, small disadvantaged, and woman-owned small businesses are included on the bidders' list for every subcontract solicitation for products and services that they are capable of providing.
- E. Ensuring that subcontract procurement "packages" are designed to permit the maximum possible participation of small, small disadvantaged, and woman-owned small businesses.
- F. Reviewing subcontract solicitations to remove statements, clauses, etc., which might tend to restrict or prohibit small, small disadvantaged, and woman-owned small business participation.
- G. Ensuring that the subcontract bid proposal review board documents its reasons for not selecting any low bids submitted by small, small disadvantaged, and woman-owned small business concerns.
- H. Overseeing the establishment and maintenance of contract and subcontract award records.
- I. Attending or arranging for the attendance of company counselors at Business Opportunity Workshops, Minority Business Enterprise Seminars, Trade Fairs, etc.
- J. Directly or indirectly counseling small, small disadvantaged and woman-owned small business concerns on subcontracting opportunities and how to prepare bids to the company.
- K. Providing notice to subcontractors concerning penalties for misrepresentations of business status as small, small disadvantaged, or woman-owned small business for the purpose of obtaining a subcontract that is to be included as part or all of a goal contained in the contractor's subcontracting plan.
- L. Conducting or arranging training for purchasing personnel regarding the intent and impact of Section 8(d) of the Small Business Act on purchasing procedures.
- M. Developing and maintaining an incentive program for buyers that support the subcontracting program.
- N. Monitoring the company's performance and making any adjustments necessary to achieve the subcontract plan goals.
- O. Preparing and submitting timely reports.

- P. Coordinating the company's activities during compliance reviews by appropriate agencies.

3. EQUITABLE OPPORTUNITY

Efforts to ensure that small, small disadvantaged, and woman-owned small business concerns have an equitable opportunity to compete for subcontracts include, but are not limited to, the following activities:

- A. Outreach efforts to obtain sources:
- Contacting minority and small business trade associations
 - Contacting business development organizations
 - Requesting sources from the Small Business Administration's ProNet System.
 - Attending small, minority, and woman-owned business procurement conferences and trade fairs.
- B. Internal efforts to guide and encourage purchasing personnel:
- Presenting workshops, seminars and training programs.
 - Establishing, maintaining and using small, small disadvantaged and woman-owned business source lists, guides and other data for soliciting subcontracts.
 - Monitoring activities to evaluate compliance with the subcontracting plan.

4. RECORD-KEEPING

Records that will be maintained to demonstrate that the procedures adopted comply with the requirements and goals will include, but not be limited to, the following:

- A. Small, small disadvantaged, and woman-owned small business concern source lists, guides, and other data identifying such vendors.
- B. Organizations contacted for small, small disadvantaged, and woman-owned small business sources.
- C. On a contract-by-contract basis, records on all subcontract solicitations over \$100,000 which indicate for each solicitation (1) whether small business concerns were solicited, and if not, why not; (2) whether small disadvantaged business concerns were solicited, and if not, why not; (3) whether woman-owned small business concerns were solicited, and if not, why not; and (4) reasons for the failure of solicited small, small disadvantaged, and woman-owned small business concerns to receive the subcontract award.

- D Records to support other outreach efforts, e.g., contacts with minority and small business trade associations, attendance at small, minority, and woman-owned small business procurement conference and trade fairs.
- E. Records to support internal activities to (1) guide and encourage purchasing personnel; e.g., workshops, seminars, training programs, incentive awards; and (2) monitor activities to evaluate compliance.
- F. On a contract-by-contract basis, records to support subcontract award data including the name, address and business size of each subcontractor. (This item is not required for company or division-wide commercial product plans).

5. DEFINITIONS

The definition of Small, Small Disadvantaged and Woman-Owned Small Business concerns are:

"Small Business concern" means a concern, including its affiliates, that is independently owned and operated, not dominant in the field of operation in which it is bidding on government contracts, and qualified as a small business under the criteria and size standards in 13 CFR Part 121 (see 19.102). Such a concern is "not dominant in its field of operation" when it does not exercise a controlling or major influence on a national basis in a kind of business activity in which a number of business concerns are primarily engaged. In determining whether dominance exists, consideration shall be given to all appropriate factors, including volume of business, number of employees, financial resources, competitive status or position, ownership or control of materials, processes, patents, license agreements, facilities, sales territory, and nature of business activity.

"Small Disadvantaged Business concern" means to become certified, a small business must meet the eligibility requirements:

- It must be owned and controlled at least 51% by a socially and economically disadvantaged individual. African Americans, Hispanic Americans, Asian Pacific Americans, and Subcontinent Asian Americans are presumed to qualify. Other individuals can qualify if they show by a "preponderance of the evidence" that they are disadvantaged.
- Individuals must have a net worth of less than \$750,000, excluding the value of the business and personnel residence.
- Successful applicants must also meet applicable size standards for small businesses in their industry and display good character.

"Women-Owned Small Business concern" means a small business concern--
(a) Which is at least 51 percent owned by one or more women; or, in the case of any publicly owned business, at least 51 percent of the stock of which is owned by one or more women; and

(b) Whose management and daily business operations are controlled by one or more women.

EXHIBIT F

IntraLATA Toll Dialing Parity Plan

I. Purpose

The purpose of the Plan is to permit customers to route intraLATA toll calls automatically, without the use of access codes, to an interexchange carrier ("IXC") of the customer's choice (e.g. IXCs that have established themselves as access customers with SBC Telecom (via tariff or contract) or, in the case of resale, that have established themselves as access customers of the incumbent local exchange carrier ("ILEC")).

SBC Telecom will comply with all rules and regulations of the Federal Communications Commission and the Tennessee Regulatory Authority ("TRA"). SBC Telecom will provide nondiscriminatory access to all telephone numbers and directory listings.

II. Implementation Schedule and Cost Recovery

SBC Telecom intends to offer dialing parity for intraLATA toll calls coincident with the launch of its service in Tennessee. SBC Telecom's initial retail customers will have the ability to choose any IXC that has established itself as an access customer with SBC Telecom or, in the case of resale, with the ILEC.

SBC Telecom will not invoke any specific charge to recover the cost of dialing parity since SBC Telecom's network will be capable of providing customers with 2-PIC (primary interexchange carrier) selection coincident with service launch.

III. Carrier Selection Procedures

SBC Telecom will implement the full 2-PIC carrier selection methodology. With the full 2-PIC methodology, customers will be able to pre-subscribe to one telecommunications carrier for intraLATA toll calls and to pre-subscribe to the same or a different participating telecommunications carrier for their interLATA toll calls.

IV. Carrier Notification

IXCs that desire to become access customers shall notify SBC Telecom via letter or telephone call of their desire to obtain exchange access service information or, for purposes of resale, shall notify the ILEC according to the rules set forth and published by the TRA. SBC Telecom will send each requesting carrier an information package describing SBC Telecom's service, processes and applicable tariffs. SBC Telecom's network is available for exchange access service to IXCs and once SBC Telecom receives and processes an IXC's Access Service Request, that carrier will be added to the list of SBC Telecom's participating carriers and will be made available to a customer seeking to choose a PIC.

V. Customer Choice

Initially, customers will be offered interLATA and intraLATA toll carrier provided by an SBC subsidiary or affiliate certificated to provide such services in Tennessee. If the customer does not affirm the decision that the SBC subsidiary or affiliate, or any other registered carrier, is their affirmative toll carrier of choice, then the customer will be designated as being "no-PIC" and will need to access carriers through dial-around access codes (i.e. 10-10-XXX).

VI. Initial PIC request

A customer's first PIC assignment will be at no cost. Subsequent changes will result in a service fee for the first line and an additional service fee for each additional line.

VII. Anti-Slamming Measures

SBC Telecom will establish procedures for handling PIC change orders consistent with TRA requirements. SBC Telecom will work with IXC's and any customer who has been slammed in order to quickly resolve any disputes. SBC Telecom will ensure that the customer's PIC selection is changed back to its carrier of choice, without charge to the customer, as soon as possible.

EXHIBIT G

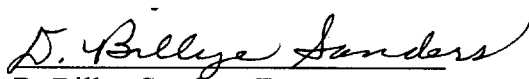
Notice of Filing of Application

**BEFORE THE TENNESSEE REGULATORY AUTHORITY
NASHVILLE, TENNESSEE**

IN RE: APPLICATION OF)	
SBC TELECOM, INC. FOR)	
A CERTIFICATE OF PUBLIC)	
CONVENIENCE AND NECESSITY)	DOCKET NO. _____
TO PROVIDE FACILITIES-BASED)	
AND RESOLD COMPETING LOCAL)	
EXCHANGE AND INTEREXCHANGE)	
TELECOMMUNICATIONS SERVICES)	
WITHIN THE STATE OF TENNESSEE)	

NOTICE OF FILING OF APPLICATION

Pursuant to T.C.A. § 65-1-201, SBC Telecom, Inc. hereby serves notice of its filing with the Tennessee Regulatory Authority ("TRA") of an Application for a Certificate of Public Convenience and Necessity to provide facilities-based and resold competing local and interexchange telecommunications services in Tennessee,¹ on this 14th day of January, 2000. Copies of the Application are available from the TRA as well as from the office of D. Billye Sanders, Esq., Waller Lansden Dortch & Davis, 511 Union Street, Suite 2100, Nashville, Tennessee 37219.


D. Billye Sanders, Esq.
WALLER, LANSDEN, DORTCH & DAVIS
A Professional Limited Liability Company
511 Union Street, Suite 2100
Nashville, Tennessee 37219
(615) 244-6380

Attorney for SBC Telecom, Inc.

¹ Initially, SBC Telecom, Inc. will provide services in the Nashville and Memphis, Tennessee Metropolitan Statistical Areas in the exchanges of BellSouth Telecommunications, Inc. In the future, it intends to expand its services throughout the State of Tennessee in any areas that are now or subsequently will become open to competition under federal and Tennessee law.

CERTIFICATE OF SERVICE

The undersigned hereby certifies that a copy of the foregoing Notice of Filing of Application has been served on the attached list of incumbent local exchange telephone companies by depositing same in the U.S. Mail, postage prepaid, on this 14th day of January, 2000.



D. Billye Sanders

Incumbent Local Exchange Service Providers
Certified in Tennessee

Ardmore Telephone Company, Inc.

Terry Wales, General Manager

517 Ardmore Avenue

P. O. Box 549

Ardmore, TN 38449

(205) 423-2131

(205) 423-2208 (Fax)

BellSouth

Guy Hicks, General Counsel

333 Commerce Street

Nashville, TN 37201-3300

(615) 214-3800

(615) 214-8820 (Fax)

Century Telephone of Adamsville

David Dickey, Division Manager

116 N. Oak Street

P. O. Box 405

Adamsville, TN 38310

(901) 632-3311

(901) 632-0232 (Fax)

Century Telephone of Claiborne

Don Ray Fannon, Division Manager

507 Main Street

P. O. Box 100

New Tazewell, TN 37825

(423) 626-4242

(423) 626-5224 (Fax)

Century Telephone of Ooltewah-

Collegedale, Inc.

Terry Crutchfield, Division Manager

5616 Main Street

P. O. Box 782

Ooltewah, TN 37363

(423) 238-4102

(423) 238-5699 (Fax)

Citizens Telecommunications Company
of Tennessee d/b/a Citizens
Communications Company

Alice Camuti, Director

250 South Franklin Street

P. O. Box 689

Cookeville, TN 38501

(931) 528-0518

(931) 528-0604 (Fax)

Loretto Telephone Company, Inc.

Louise Brown, President

P. O. Box 130

Loretto, TN 38469

(931) 853-4351

(931) 853-4329 (Fax)

Millington Telephone Company, Inc.

W. S. Howard, President

4880 Navy Road

Millington, TN 38053

(901) 872-3311

(901) 873-0022 (Fax)

Sprint-United

Steve Parrott, Director-Regulatory
Affairs

United Telephone Southeast, Inc.

14111 Capital Boulevard

Wake Forest, NC 27587-5900

(919) 554-7039

(800) 733-9045 customer contact #

TDS Telecom-Concord Telephone
Exchange, Inc.

Jerry R. Parkerson, Manager

701 Concord Road

P. O. Box 22610

Knoxville, TN 37933-0610

(423) 966-5828

(423) 966-9000 (Fax)

**TDS Telecom-Humphreys County
Telephone Company**

Bernard R. Arnold, Manager

203 Long Street

P. O. Box 552

New Johnsonville, TN 37134-0552

(913) 5351-2200

(931) 535-3309 (Fax)

**TDS Telecom-Tellico Telephone
Company, Inc.**

Carl Lester, Manager

102 Spence Street

P. O. Box 9

Tellico Plains, TN 37385-0009

(423) 671-4600

(423) 253-7080 (Fax)

**TDS Telecom-Tennessee Telephone
Company**

P. O. Box 18139

Knoxville, TN 37928-2139

(423) 922-3535

(423) 922-9515 (Fax)

TEC-Crockett Telephone Company, Inc.

P. O. Box 7

Friendship, TN 38034

(901) 677-8181

TEC-People's Telephone Company, Inc.

P. O. Box 310

Erin, TN 37061

(913) 289-4221

(913) 289-4220 (Fax)

**TEC-West Tennessee Telephone
Company, Inc.**

244 E. Main Street

P. O. Box 10

Bradford, TN 38316

(901) 742-2211

(901) 742-2212 (Fax)

United Telephone Company

120 Taylor Street

P. O. Box 38

Chapel Hill, TN 37034

(931) 364-2289

(931) 364-7202 (Fax)

**Citizens Communications Company of
the Volunteer State d/b/a Citizens
Communications Company**

Mike Swatts

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